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MONTHLY PROJECTIONS
OCTOBER 1984

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INVENTORY CORRECTION CREATES RECESSION-LIKE CONDITIONS INTO OCTOBER

Except for duration, all the indicators are consistent with recessionary behavior in September. The diffusion index of employment gains showed an increase of only 38%. The index used by purchasing managers to show expansionary tendencies fell below 50%, levels consistent with economic decline. Our estimates of real GNP showed a modest decrease in September. Industrial production fell, and only one-fourth of the decline could be attributed to the GM strike disruption. Of course, credit demands receded, as they normally do during an inventory contraction, while interest rates fell sharply. Also, the ratio of the money stock to the monetary base fell to levels that normally develop only during recessions. In short, all the production, employment, and credit market pressures showed signs of recessionary conditions.

Fortunately, enough non-recessionary characteristics prevailed to indicate that a return to increasing economic growth is only a month away. First, the workweek expanded in virtually all industries, even those where employment was falling sharply. Concern about the magnitude of the GM strike may have discouraged manufacturing industries from replacing natural turnover, at least until the strike issue was resolved. In the meantime, those industries were extending their hours to meet their current order commitments even as their payrolls were shrinking. A continuation of GM disruptions in Canada through most of October may not permit a significant rebound in that month. However, activity is expected to regain significant upward momentum in November.

Second, consumers vigorously returned to the marketplace in September. The savings rate shot up sharply in the summer months but returned to a more normal level in September. Lack of automobile availability will continue to restrain consumer purchases of durable goods through October, but substantial consumer support for the economy is anticipated during the important Christmas season. As the consumer entered the marketplace even as producers were reducing their levels of production to eliminate excess holdings of materials, any imbalances between sales and inventories that developed during the July and August consumers' vacation should be eliminated by the end of October.

Third, the substantial weakness in credit market pressures that developed while excess inventories were being pared should have some longer term favorable effects upon housing activity and investment. However, housing is being stymied by falling interest rates, as potential buyers step to the sideline to see how cheap their financing will become. As the economy regains strength later in the fall, these declining interest rates should vanish and a healthy sales market for single-family housing should return. Thus, the low point for housing probably will be during the first quarter at slightly less than 1.5 million units. Construction then will be trending upward for the remainder of 1985.

Surprisingly, the dollar remains strong almost throughout this period of weakening economic activity and declining short-term interest rates. Indeed, the dollar's strength probably insures weakness in net exports through much of 1985. Fortunately, weakening market control of oil by OPEC will largely offset the adverse effects of continuing strength in the dollar. Our position is that prices of light distillates are too high relative to heavy crude as a result of substantial refinery investment that permits use of the heavier energy materials. Although production curtailments by OPEC may initially prop up all oil prices, some change in the price differential will be necessary in order to reflect this new refining reality. Thus, we believe that light oil will fall by $2 per barrel while no other declines in oil prices are likely. The impact of this decline will be to slow the increase of the Consumer Price Index by 0.4% from what otherwise would have prevailed. The Producer Price Index will slow by 0.7%. However, long-term treasury securities already have incorporated that magnitude of lessened inflationary pressure into their market bids. Thus, no further positive effects upon credit markets are anticipated unless OPEC prices are different from those anticipated above.

Finally, the performance of equity values must be viewed as quite discouraging in view of significant declines in both short and long-term interest rates. Indeed, our equity market formula would suggest that corporate profitability must be declining for the stock market to show the minimal gains that developed despite significant interest rate declines. Of course, our fourth quarter estimates of gains in nominal GNP suggest just that. Operating profits probably are declining by $2-$3 billion in the fourth quarter. Moreover, inventory profit actually fell into negative territory late in the third quarter. Unless commodity prices collapse, it is unlikely that further gains in profit quality can be achieved through diminished inventory valuation. Also, about 75% of prevailing capital now is under ACRS rules. Capital spending at this point will do little to increase the capital consumption adjustment. Although the quality of earnings could improve by an additional $5 billion because of the capital consumption adjustment factor in 1985, it is clear that little further gains in the quality of profitability can now be achieved. When both the reduced profitability and prospects for no further gains in profit quality are combined, the near-term outlook for equity markets is not good. Only a substantial decline in interest rates could create further gains in equity values. However, such further declines would require that recessionary conditions persist. It is unlikely that equity ownership can be favored under such circumstances.

QUARTERLY PROFILE OF GNP

	1984-2	1984-3	1984-4	1985-1	1985-2	1985-3
Real:	7.1	2.9	2.6	4.0	3.7	3.1
Price:	3.3	3.8	3.7	5.0	4.7	4.8
Nominal:	10.7	6.8	6.4	9.2	8.6	8.1

Monthly Statistical Highlights for October 1984

Payroll employment +132,000; index of hours worked -0.1%; household employment +326,000; civilian unemployment rate 7.5%; personal income +0.5%; savings rate 5.9%; personal consumption +0.7%; retail sales +0.6%; auto sales 10.0 million; housing starts -5.5%; housing permits -0.6; construction expenditures -0.1%; business inventories +0.6%; orders for durable goods +0.8%; orders for nondefense capital goods +2.0%; industrial production +0.3%; CPI +0.4%; PPI +0.3%; consumption deflator +0.4%; leading indicators -0.1%; real GNP +2.2%; M1 -3.2%; M2 7.4%.

Monthly Statistical Highlights for November 1984

Payroll employment +168,000; index of hours worked +0.3%; household employment +199,000; civilian unemployment rate 7.5%; personal income +0.7%; savings rate 5.7%; personal consumption +1.0%; retail sales +1.4%; auto sales 10.5 million; housing starts -3.7%; housing permits -3.0%; construction expenditures -0.4%; business inventories +0.7%; orders for durable goods +1.7%; orders for nondefense capital goods +1.0%; industrial production +0.4%; CPI +0.2%; PPI +0.2%; consumption deflator +0.2%; leading indicators +0.4%; real GNP +6.7%; M1 +6.3%; M2 +9.4%.

COMMENTARY

Employment - Initial unemployment claims continued to rise through the middle of October, when claims rose to 392,000. However, most unemployment is of short duration, as the insured unemployment rate fell slightly to 2.6% from a month ago. It appears that a modest rebound in manufacturing employment is developing while construction employment is expected to decline. Significant gain should continue in retail trade, but no significant growth is expected in health services or in local government.

Personal Income and Outlays - An unexpected rebound in farm income during September generated greater increases in personal income than expected even as wage and salary employment, impacted by the GM strike, was below anticipations. Farm income is not expected to remain at the $31 billion recorded in September. Indeed, farm income is expected to average only $25 billion in 1985. Moreover, interest income is not expected to continue growing at the 20% rates that were recorded in September. For that reason, personal income should grow more slowly in the months ahead even as a rebound develops for wage income in November after the GM strike is settled.

Outlays confirmed the rapid increases recorded in retail sales. Nondurables rebounded by $16.4 billion, as all facets of nondurables grew sharply. The service sector showed surprising strength even with a slowing in financial services. Financial services should rebound during October. Automobile sales are being restricted by lack of availability. Units should decline in October, although price increases are sufficient to insure that durable goods spending will be up slightly. A sharp rebound in automobile sales is anticipated in November, however, as more units become available.

Construction - Housing starts were surprisingly strong in September despite the anticipated weakness in housing permits. A 252,000 gap between starts and permits is unusually large and probably represents starts because of especially favorable weather. Unusually dry weather in the south may have accounted for that region showing the strongest gains in starts. If so, declining starts in October will reflect a return to more normal weather. Despite the decline in interest rates, single-family sales are expected to continue eroding until interest rates have stabilized. This should be achieved by the end of the fall. Then a significant upward trend in single-family activity should develop. However, an overhang in multi-family units will prevent that segment of the housing market from rebounding until the second half of 1985.

The slippage in housing starts anticipated for the fall should lead to lower construction spending for residential purposes than originally projected. In addition, nonresidential activity continues to show surprising sluggishness following its first half surge. Public construction once again is being delayed by Congressional inaction. While modest growth is anticipated through the fall, lack of federal government disbursements of highway transfer funds may cause even weaker performance than contained in our projections. Nevertheless, construction should reach its low point for this cycle early in 1985 and should become a contributing factor to economic growth later in that year.

Business Activity - Orders for nondefense capital goods increased in September, but shipments grew even more sharply. Orders should grow further. Shipments cannot sustain their current levels without such an increase. Defense shipments and orders did just the reverse. Both fell sharply with no additions to backlog at the present time. Of course, reductions in transportation equipment shipments accounted for most of the significant dropoff in durable goods orders. When the transportation and defense conditions are considered, almost all the decline in durable goods orders is explained. Transportation shipments will remain low in October, while defense orders should rebound. A return to more substantial orders is likely in November.

Prices - Pricing distortions were as large as expected in our previous analysis, as the CPI increased 0.4% despite an announced 0.2% decline in the PPI. However, a surge in the PPI no longer appears likely for October because of significant weakness in prices for petroleum products. Some of that price weakness, however, will not be passed on to the consumer. Indeed, retail prices of petroleum products are out of phase with prevailing prices for crude materials. Thus, a modest price decline in crude energy materials would merely re-establish appropriate balance between all stages of petroleum products. Nevertheless, prospects for declining oil prices along with the recent surge in currency values has led to a downward revision in price projections for all sectors except services. Service prices, however, have been revised upward because of stronger increases in wages than originally projected. Indeed, commodity prices are rising at less than a 3% rate while prices in the service sector are beginning to exceed a 6% growth path.

Miscellaneous - Although the Secretary of Commerce has indicated that a rebound to 4% real GNP growth during the fourth quarter could be anticipated, our monthly analysis clearly shows that such a surge is unlikely. Activity remains sluggish well into October, thus generating a gain in real GNP only slightly above third quarter averages. While a substantial rebound in activity is expected in November and reasonably robust gains should also develop in December, the quarter will only generate 2.5% real GNP growth according to our analysis.

The strong dollar has necessitated an upward revision in the trade deficit, but the decline in oil prices has led to a reverse adjustment. The net result is little change in the trade balance over the next twelve months with trade deficits running at $125 billion.

FINANCIAL MARKETS

Short-term interest rates tumbled more sharply than had been expected as the inventory correction greatly reduced the demand for money. Indeed, the Federal Reserve's reluctance to permit whatever federal funds rate would be necessary to achieve money growth targets led to an actual withdrawal of reserves from the banking system during October. This weakness is expected to be temporary, with money demand picking up significantly before the end of 1984. As a result, the federal funds rate should once again cross into double-digit territory. However, the current prime rate of 12.0% should prevail for the remainder of this year.

According to our analysis, the household sector is reducing its savings. At the same time, however, it is reducing its increase in mortgages outstanding. The net effect is a slight net withdrawal of the household sector from the credit markets. After the inventory adjustment has been completed sometime in October, the corporate sector will discover that internally generated funds are inadequate to maintain investment programs. Thus, corporate borrowings are expected to begin intensifying in October and should increase significantly as the fall progresses. Government borrowings are expected to gradually increase as receipts no longer are growing robustly relative to expenditures. However, the Social Security tax increase in January 1985 should temporarily reduce government deficits in that quarter. Finally, the weakening of economic activity and corporate profitability in the United States and the downtrend in the federal funds rate should diminish the ardor of foreign investors for American assets. To be sure, evidence of the shift in foreign investor sentiment remains absent. The dollar has declined modestly in value, but the sharp decline in short-term interest rates in the United States certainly can account for that reaction.

When all the factors are combined, a modest argument for increasing interest rates pressures in the fall and winter months can be established. More significant interest rate pressures could develop in the spring, especially if the household sector begins increasing its holdings of mortgages outstanding while diminishing its rate of savings. Of course, the corporate sector is expected to continue being significant borrowers through the first half of 1985. Thus, interest rates are expected to trend upward. Indeed, interest rates may well have reached their low point for this latest rally in October. It is instructive that longer term tax exempt and corporate bonds have not exhibited the rally that has flourished in the long-term government bond market. Without support from these other long-term instruments, the government rally must be viewed with suspicion.

Equity Markets - Corporate profits almost certainly are falling during the fall quarter. They may show a modest rebound during the winter months, but the combination of reduced revenue growth, increased wage pressures, and a re-emergence of growing interest costs should re-establish a profit squeeze in the spring. As this profit squeeze is expected to coincide with rebounding interest rates, equity values are expected to be under downward pressure. We still see an objective of 1100 on the Dow Jones index early in 1985. Later in the year modestly improved profitability and the potential for re-emergence of declining interest rates should re-establish opportunities for equity investment.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Inde	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	93449	93449	112.0	112.0	104402	104402	7.8	7.8	159.9	159.9
May	93768	93786	112.0	112.0	105288	105288	7.5	7.5	159.6	159.6
June	93970	94135	112.6	112.7	105748	105748	7.1	7.1	160.3	160.3
July	94286	94350	112.9	112.6	105879	105395	7.3	7.5	161.1	160.8
August	94533	94532	113.2	112.6	106220	104969	7.1	7.5	161.5	160.6
September	94795	94671	113.6	113.2	106575	105239	7.0	7.4	161.8	161.7
October	94762	94803*	113.3	113.1*	106537	105655*	7.0	7.5*	162.4	162.2*
November	94897	94971	113.7	113.4	106895	105764	7.0	7.5	163.0	162.9
December	95416	95138	114.0	113.5	107181	105961	6.9	7.5	163.5	163.5
January 1985	95584	95386	114.3	113.7	107489	106230	6.9	7.3	164.3	164.2
February	95727	95554	114.6	113.9	107646	106441	6.9	7.3	165.3	164.9
March	95960	95638	115.0	114.0	107890	106560	6.7	7.3	166.2	165.7
April	96092	95802	115.0	114.1	108134	106785	6.6	7.3	166.9	166.4
May	96243	95970	115.2	114.3	108363	107130	6.6	7.1	167.6	167.2
June	96385	96138	115.4	114.5	108592	107183	6.5	7.1	168.2	167.9
July	96538	96303	115.6	114.6	108748	107524	6.5	7.0	169.1	168.7
August	96705	96471	115.7	114.8	108915	107759	6.6	7.0	170.0	169.5
September	96874	96636	115.9	114.9	109093	107954	6.7	7.0	170.9	170.3

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	2.969	2.969	1.785	1.785	162.3	158.4	2.545	2.544	2.383	2.385
May	2.981	2.979	1.789	1.790	142.9	132.1	2.554	2.549	2.411	2.417
June	3.005	3.007	1.802	1.804	156.8	143.9	2.573	2.570	2.417	2.426
July	3.028	3.027	1.814	1.812	163.1	158.5	2.591	2.587	2.428	2.428
August	3.050	3.045	1.825	1.816	157.9	174.2	2.609	2.603	2.451	2.429
September	3.061	3.071	1.827	1.828	142.9	161.5	2.616	2.625	2.473	2.463
October	3.074	3.087*	1.830	1.835*	144.7	156.2*	2.626	2.637*	2.481	2.481*
November	3.105	3.110	1.852	1.848	159.7	151.4	2.653	2.656	2.493	2.505
December	3.123	3.127	1.864	1.856	152.2	144.1	2.667	2.669	2.515	2.525
January 1985	3.140	3.146	1.877	1.870	148.2	142.4	2.680	2.685	2.532	2.543
February	3.164	3.166	1.892	1.882	151.3	144.2	2.699	2.701	2.548	2.557
March	3.188	3.188	1.908	1.894	155.7	146.0	2.719	2.719	2.563	2.573
April	3.209	3.208	1.918	1.905	157.5	147.2	2.737	2.735	2.579	2.588
May	3.234	3.232	1.929	1.919	163.7	151.1	2.760	2.755	2.596	2.604
June	3.260	3.253	1.938	1.931	169.0	154.1	2.781	2.773	2.612	2.619
July	3.281	3.273	1.951	1.942	168.3	156.6	2.797	2.789	2.629	2.632
August	3.301	3.296	1.964	1.956	166.5	163.3	2.811	2.808	2.645	2.645
September	3.320	3.317	1.977	1.968	166.2	166.7	2.826	2.825	2.660	2.658

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	2307.7	2310.1	309.7	309.7	855.3	855.3	1142.7	1145.1	1053.2	1053.9
May	2334.0	2340.1	324.0	325.4	859.8	860.0	1150.2	1154.8	1065.4	1067.7
June	2338.4	2347.9	322.5	326.9	858.3	859.7	1157.6	1161.2	1066.5	1071.1
July	2349.1	2348.7	323.2	320.2	860.6	859.2	1165.3	1169.2	1067.8	1064.8
August	2371.1	2347.8	324.4	313.6	867.3	856.1	1179.4	1781.8	1073.9	1058.5
September	2391.9	2381.3	325.6	318.1	880.0	874.5	1186.3	1188.7	1078.9	1070.3
October	2399.3	2398.0*	323.8	319.7*	880.9	880.0*	1194.6	1198.3*	1078.3	1074.1
November	2410.5	2420.9	322.7	329.5	884.0	884.5	1203.8	1206.9	1079.5	1082.3
December	2431.0	2440.3	330.6	332.7	887.4	892.9	1213.0	1214.7	1084.3	1087.7
January 1985	2447.0	2457.0	332.9	337.0	892.5	896.7	1221.6	1223.3	1087.6	1091.3
February	2461.9	2470.3	333.8	337.1	897.6	900.6	1230.5	1232.6	1090.8	1092.6
March	2476.5	2485.5	333.8	338.4	902.1	905.6	1240.6	1241.5	1093.9	1095.1
April	2491.7	2499.4	335.1	339.6	907.3	909.5	1249.3	1250.3	1096.2	1097.0
May	2507.5	2514.6	336.3	342.3	912.0	913.4	1259.2	1258.9	1098.8	1099.6
June	2522.2	2528.6	337.6	343.1	916.7	917.7	1267.9	1267.8	1100.0	1101.5
July	2537.9	2541.1	339.7	342.5	920.9	921.1	1277.3	1277.5	1103.0	1102.1
August	2552.8	2552.4	341.1	340.6	925.3	924.9	1286.4	1286.9	1105.6	1102.3
September	2567.1	2564.9	341.9	339.9	929.4	929.2	1295.8	1295.8	1107.9	1102.9

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	107.51	107.51	15.37	15.37	10.1	10.2	70.07	70.07	22.07	22.07
May	108.24	108.24	15.49	15.49	11.0	11.0	70.33	70.33	22.42	22.42
June	108.78	109.32	15.50	15.71	10.8	10.8	70.42	70.64	22.86	22.98
July	108.94	107.44	15.71	15.44	10.7	10.6	70.50	69.99	22.73	22.02
August	109.77	106.81	15.77	15.58	10.8	9.9	71.05	70.15	22.95	21.08
September	110.81	108.52	15.69	15.52	10.8	10.2	72.09	71.64	23.03	21.36
October	110.67	109.19*	15.76	15.62*	10.6	10.0*	72.17	72.09*	22.74	21.45*
November	110.80	110.69	15.93	15.73	10.3	10.5	72.42	72.46	22.45	22.50
December	112.02	111.72	15.88	15.81	10.9	10.6	72.70	73.15	23.44	22.76
January 1985	112.71	112.53	15.90	15.87	11.0	10.8	73.12	73.46	23.69	23.20
February	113.22	112.86	16.09	16.03	10.9	10.7	73.53	73.78	23.60	23.05
March	113.60	113.47	16.19	16.01	10.8	10.8	73.90	74.19	23.51	23.27
April	114.18	113.88	16.25	16.06	10.8	10.8	74.33	74.51	23.60	23.31
May	114.70	114.52	16.46	16.17	10.7	10.9	74.71	74.83	23.55	23.52
June	115.25	114.96	16.37	16.24	10.8	10.9	75.10	75.18	23.78	23.54
July	115.84	115.17	16.37	16.31	10.9	10.8	75.44	75.46	24.03	23.40
August	116.36	115.26	16.65	16.47	10.8	10.6	75.80	75.77	23.91	23.02
September	116.80	115.53	16.64	16.55	10.8	10.5	76.14	76.12	24.02	22.86

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	270.4	270.4	98.32	98.32	25.89	25.89	24.80	24.80
May	274.6	274.6	102.26	102.26	28.96	28.96	25.89	25.89
June	277.8	277.5	99.83	99.17	28.08	28.03	27.04	26.89
July	280.3	280.0	97.78	101.70	27.63	27.65	26.56	25.86
August	282.6	283.5	98.72	102.02	27.85	26.50	26.94	26.05
September	285.4	285.2*	99.63	97.61	28.43	27.10	27.47	27.46
October	288.1	287.1	99.67	98.43*	28.40	27.63*	27.55	27.15*
November	290.3	289.8	100.39	100.06	28.32	27.92	27.67	27.29
December	292.3	291.5	101.27	98.95	28.57	27.90	27.80	27.43
January 1985	294.8	293.3	103.43	100.92	29.18	28.47	28.15	27.68
February	297.1	295.2	103.76	100.73	29.20	28.43	28.46	27.94
March	299.8	296.8	104.68	101.96	29.53	28.68	28.79	28.16
April	302.2	298.5	103.78	102.41	29.50	28.55	28.85	28.39
May	305.7	301.3	105.14	102.76	29.63	28.92	28.93	28.62
June	307.8	303.4	104.88	102.28	29.71	28.78	28.93	28.55
July	310.4	305.7	106.62	103.67	30.12	29.03	29.01	28.78
August	313.2	307.8	107.18	104.29	30.28	29.41	29.50	28.95
September	315.7	310.1	107.50	104.78	30.37	29.68	29.76	29.14

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	541.1	541.1	5.99	5.99	162.2	162.2	81.5	81.5
May	545.9	545.9	5.75	5.75	162.7	162.9	81.5	81.6
June	550.8	546.8	5.92	5.98	164.1	164.4	82.0	82.2
July	556.3	551.2	6.06	5.99	165.2	165.8	82.3	82.7
August	560.5	556.2	6.18	6.13	166.3	166.1	82.6	82.6
September	564.7	558.2*	6.36	5.88	166.5	165.1	82.5	81.9
October	569.3	561.6	6.35	6.03*	166.2	165.6*	82.1	82.0*
November	573.9	565.5	6.43	6.14	166.7	166.3	82.2	82.2
December	578.1	569.7	6.52	6.29	167.3	167.0	82.4	82.4
January 1985	582.2	574.3	6.60	6.35	167.9	167.3	82.5	82.4
February	586.9	578.5	6.70	6.42	168.5	167.6	82.6	82.4
March	591.8	582.3	6.79	6.53	169.1	168.0	82.8	82.5
April	594.7	586.2	6.91	6.65	169.4	168.4	82.8	82.6
May	599.3	591.7	7.01	6.77	169.6	168.7	82.7	82.6
June	606.6	595.8	7.12	6.89	169.9	169.0	82.7	82.5
July	613.4	601.4	7.23	7.01	170.3	169.0	82.7	82.2
August	617.3	606.2	7.35	7.12	170.7	169.2	82.7	82.1
September	620.8	611.7	7.48	7.23	171.0	169.3	82.8	82.0

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	2.015	2.015	1.196	1.196	1.758	1.758	305.3	308.6	189.3	188.9
May	1.794	1.794	1.151	1.131	1.745	1.745	311.3	316.4	194.3	193.4
June	1.886	1.877	1.068	1.084	1.776	1.776	310.6	315.3	195.8	193.8
July	1.763	1.754	1.036	0.990	1.624	1.565	314.1	311.2	196.9	191.0
August	1.707	1.539	1.015	0.932	1.582	1.506	317.4	311.7	198.0	190.9
September	1.696	1.676	1.027	1.009	1.556	1.424	319.5	312.5*	198.4	191.0*
October	1.728	1.583*	1.058	0.954*	1.573	1.416*	321.6	312.4	199.4	190.4
November	1.714	1.524	1.040	0.928	1.582	1.374	320.6	311.2	198.3	189.3
December	1.701	1.484	1.028	0.906	1.542	1.363	319.4	312.5	197.0	189.6
January 1985	1.656	1.438	1.003	0.889	1.503	1.324	322.1	309.6	197.9	187.5
February	1.692	1.449	1.032	0.907	1.517	1.306	328.1	308.3	200.9	186.3
March	1.719	1.509	1.043	0.946	1.538	1.314	333.8	308.3	203.9	185.7
April	1.684	1.524	1.002	0.953	1.543	1.355	332.3	311.0	202.1	186.7
May	1.608	1.559	0.994	0.976	1.496	1.372	331.7	313.9	201.0	187.6
June	1.595	1.583	0.953	0.995	1.472	1.421	333.1	317.5	201.0	189.0
July	1.638	1.599	0.986	1.007	1.483	1.448	336.1	320.2	202.0	189.9
August	1.627	1.649	0.974	1.043	1.465	1.496	338.0	323.8	202.5	191.3
September	1.577	1/687	0.917	1.076	1.441	1.542	339.8	327.8	202.9	192.8

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	117.0	117.5	54.6	54.5	133.7	136.6
May	121.6	122.8	55.5	55.2	134.2	138.4
June	122.4	121.4	57.0	57.5	131.2	136.4
July	124.4	119.7	56.9	56.2	132.8	135.3
August	126.3	120.0	57.5	56.2	133.6	135.4
September	128.1	121.3*	58.2	56.7*	133.2	134.5*
October	130.3	122.2	58.7	57.3	132.6	132.9
November	132.5	123.0	59 1	58.0	129.0	130.2
December	134.8	124.1	59.6	58.3	125.0	130.1
January 1985	136.9	125.0	60.0	58.8	125.2	125.8
February	138.9	125.8	60.3	59.3	128.9	123.2
March	141.0	126.5	60.5	59.9	132.3	121.9
April	142.6	127.7	60.8	60.3	128.9	123.0
May	144.1	128.6	61.1	60.8	126.5	124.5
June	145.7	129.8	61.5	61.2	125.9	126.5
July	147.4	130.5	62.3	61.5	126.4	128.2
August	148.7	131.8	63.1	62.0	126.2	130.0
September	150.1	133.0	63.8	62.6	125.9	132.2

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	309.0	309.0	291.6	291.4	322.5	322.6	221.69	221.76
May	309.6	309.6	291.5	291.5	323.3	323.3	222.25	222.43
June	310.1	310.1	291.4	291.4	323.9	323.9	222.98	223.01
July	311.1	311.0	292.2	292.2	324.3	324.0	223.55	223.85
August	312.0	312.4	292.8	291.9	325.0	323.5	224.16	224.49
September	312.9	313.5	293.3	291.3	326.3	322.3	225.01	225.17
October	314.5	314.9*	294.4	292.2*	328.4	323.9*	225.93	225.98
November	316.0	315.5	295.5	292.8	328.6	324.8	226.89	226.52
December	317.6	316.4	296.6	293.7	328.9	325.3	227.85	227.22
January 1985	318.9	317.5	297.5	294.7	330.6	326.0	229.11	228.40
February	320.2	318.9	298.4	295.7	332.4	327.5	229.93	229.36
March	321.5	320.1	299.6	296.6	334.1	328.9	230.75	230.28
April	323.0	321.3	300.8	297.6	335.2	329.5	231.63	231.12
May	324.6	322.5	302.0	298.7	336.4	330.3	232.60	231.98
June	326.3	323.7	303.5	299.5	337.5	331.0	233.62	232.83
July	327.4	325.1	304.1	300.8	339.0	331.9	234.54	233.79
August	328.5	326.3	305.0	301.8	340.8	332.8	235.41	234.72
September	329.7	327.6	306.1	302.9	342.6	332.3	236.30	235.69

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	219.1	219.2	179.1	179.1	217.2	217.2	234.9	235.0	161.3	163.4
May	219.1	219.2	179.6	179.8	216.6	216.5	235.7	235.9	160.2	163.6
June	219.3	219.2	179.5	179.6	216.0	215.5	236.5	237.0	158.6	162.7
July	220.0	220.6	179.8	179.4	216.5	216.9	237.7	238.5	159.5	162.9
August	220.8	221.8	180.0	179.2	217.1	218.3	238.8	239.8	160.3	163.2
September	221.7	222.5*	180.2	179.3*	217.7	218.8*	240.0	241.0*	161.0	163.6*
October	222.5	223.3	180.5	179.7	218.4	219.2	241.1	242.2	161.3	164.1
November	223.3	223.7	180.9	180.3	219.0	219.2	242.1	243.3	161.7	164.4
December	224.2	224.4	181.3	180.7	219.6	219.5	243.0	244.5	162.1	164.8
January 1985	225.0	225.1	181.7	181.2	220.3	220.1	244.2	245.7	162.8	165.1
February	225.7	226.1	182.0	181.5	221.0	220.8	245.5	247.0	163.3	165.5
March	226.4	227.0	182.3	181.9	221.7	221.5	246.8	248.2	163.7	166.0
April	227.3	227.8	182.6	182.2	222.4	222.2	247.9	249.4	164.4	166.6
May	228.2	228.7	183.0	182.6	223.0	222.9	249.0	250.6	165.0	167.3
June	229.3	229.6	183.4	182.9	223.7	223.6	250.1	251.8	165.7	168.0
July	230.1	230.6	183.9	183.4	224.4	224.3	251.3	253.1	166.4	168.6
August	230.9	231.6	184.5	183.9	225.0	225.0	252.5	254.3	166.9	169.3
September	231.7	232.5	185.1	184.5	225.6	225.8	253.6	255.5	167.5	170.0

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	-10.95	-10.95	168.3	168.2	3618	3618	1632	1631	7.9	7.8
May	-7.62	-7.62	168.9	168.6	3643	3642	1639	1638	9.3	8.5
June	-7.72	-7.72	167.4	166.7	3679	3675	1650	1648	8.0	6.9
July	-9.42	-14.06	167.0	163.7	3705	3694	1657	1650	6.2	1.8
August	-7.63	-9.86	167.5	164.5	3725	3707	1662	1651	4.3	0.3
September	-8.78	-10.19*	168.2	164.4	3746	3715	1665	1650	3.6	-0.3
October	-8.93	-10.93	168.0	164.3	3768	3736	1668	1653	9.9	-1.4
November	-9.08	-10.17	168.5	164.9	3785	3764	1668	1662	16.7	0.7
December	-8.92	-10.53	169.5	165.6	3822	3790	1677	1668	19.9	1.8
January 1985	-7.85	-10.76	169.8	165.9	3847	3818	1679	1672	18.7	4.6
February	-8.63	-11.23	170.5	166.4	3875	3846	1685	1677	17.5	7.8
March	-10.32	-10.82	170.8	167.3	3914	3878	1696	1684	16.2	7.9
April	-8.86	-10.41	171.3	167.7	3928	3901	1696	1688	18.4	8.8
May	-9.25	-10.16	171.8	167.6	3952	3930	1699	1694	20.3	9.3
June	-9.02	-10.27	172.2	167.5	3977	3951	1702	1697	20.1	9.8
July	-8.95	-9.88	171.5	168.2	4002	3982	1706	1703	20.8	10.3
August	-8.82	-10.43	171.2	168.5	4029	4001	1711	1705	21.1	11.2
September	-8.76	-10.27	170.8	168.9	4055	4030	1716	1710	20.8	11.8

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	208.4	208.4	535.3	535.3	2242.2	2242.7	10.29	10.29	9.84	9.84
May	210.0	210.0	541.0	541.0	2259.6	2258.4	10.32	10.32	10.31	10.31
June	212.9	212.8	546.2	546.2	2273.0	2272.0	11.06	11.06	10.51	10.51
July	213.0	212.5	547.3	545.6	2285.5	2281.4	11.15	11.23	10.50	10.52
August	214.1	212.7	550.2	546.4	2296.2	2290.1	11.31	11.64	10.46	10.61
September	215.3	215.0	553.3	549.0	2307.5	2304.7	11.32	11.30	10.55	10.47
October	216.7	214.6*	557.8	547.5*	2322.4	2318.4*	11.30	10.03*	10.43	9.87*
November	218.3	215.4	561.2	550.3	2343.6	2335.9	11.35	10.05	10.47	9.82
December	219.9	216.6	564.6	554.3	2366.2	2355.9	11.33	10.37	10.52	10.01
January 1985	221.2	217.8	568.3	559.3	2384.6	2378.5	11.62	10.76	10.67	10.06
February	222.6	218.9	572.1	562.6	2400.2	2396.6	11.76	10.68	10.76	10.05
March	224.1	220.1	575.8	565.9	2415.9	2414.8	11.91	11.02	10.85	10.33
April	225.5	221.5	578.9	569.9	2435.7	2433.1	12.27	11.17	11.02	10.45
May	226.9	222.6	582.4	573.2	2456.9	2451.6	12.53	11.43	11.20	10.56
June	228.3	224.0	586.1	576.6	2477.3	2467.8	12.46	11.56	11.17	10.51
July	229.7	224.9	589.0	579.3	2495.2	2484.1	12.02	11.52	10.72	10.38
August	231.0	226.2	591.8	580.9	2509.8	2498.8	11.75	11.24	10.43	10.32
September	232.3	227.4	594.6	584.4	2524.7	2517.9	11.48	11.06	10.29	10.21

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	12.81	12.81	10.19	10.19	10.18	10.18	10.41	10.41	11.93	11.93
May	13.28	13.28	10.49	10.49	10.65	10.65	11.11	11.11	12.39	12.39
June	13.55	13.55	10.67	10.67	10.98	10.98	11.34	11.34	13.00	12.60
July	13.43	13.44	10.48	10.42	11.18	11.19	11.52	11.56	13.00	13.00
August	13.07	12.87	10.13	10.06	11.30	11.18	11.73	11.47	13.00	13.00
September	12.62	12.66	9.72	10.03	11.32	11.04	11.80	11.29	13.00	13.00
October	13.06	12.56*	10.12	10.22*	11.30	9.86*	11.71	10.18*	13.00	12.59*
November	13.39	12.68	10.47	10.33	11.26	9.94	11.59	10.27	13.00	12.00
December	13.72	12.72	10.84	10.41	11.25	10.22	11.55	10.58	13.00	12.00
January 1985	13.52	12.89	10.68	10.43	11.58	10.53	11.88	10.87	13.37	12.33
February	13.46	12.95	10.57	10.36	11.71	10.58	11.99	10.93	13.50	12.50
March	13.51	13.11	10.61	10.53	11.90	10.84	12.17	11.26	13.78	12.89
April	13.59	13.28	10.74	10.69	12.07	11.06	12.38	11.38	14.00	13.00
May	13.92	13.35	11.14	10.72	12.36	11.37	12.63	11.65	14.36	13.07
June	13.74	13.17	10.94	10.54	12.30	11.47	12.65	11.72	14.50	13.50
July	13.41	13.02	10.54	10.33	11.98	11.53	12.36	11.88	14.43	13.50
August	13.17	12.83	10.30	10.07	11.74	11.29	12.07	11.59	13.93	13.50
September	13.08	12.76	10.20	9.95	11.39	11.08	11.68	11.41	13.42	13.26

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MONTHLY PROJECTIONS
NOVEMBER 1984

Dr. Donald Ratajczak, Director
For Release: December 7, 1984

TAX REFORM UNCERTAINTY COULD SPELL RECESSION

Throughout the current inventory imbalance, which apparently began in July, it was assumed that consumer spending took a moderate rest. Production growth would slow, with the possibility of one or two months of production decline, but a rebound in consumer spending toward the Christmas season would limit the degree to which production would need to correct. To the extent that the inventory correction would restrain price increases and moderate interest rates, consumer spending would be stronger early in 1985 and housing activity would rebound, leading to a reasonable rate of economic growth. It now appears that sales will not be rebounding as much as originally anticipated.

In fact, our November forecast assumed that consumers would be willing to accept a significant slowing in their savings' program during 1985. Early in the year, this savings reduction would lead to reasonably strong economic growth. Later in 1985, however, the impact of reduced growth in hours worked and continued restraint in wage changes would lead to reduced consumer purchasing power. Thus, recessionary tendencies could materialize late in 1985. However, the consumer appears to be concerned with debt servicing currently required to support the $460 billion of consumer credit outstanding. More significantly, interest on this debt has not materially declined despite the weakening of interest rates late in 1984. With no substantial fears of resurging inflation, more consumers appear to be opting for the choice of saving prior to purchasing rather than buying now and paying later. As a result, sales are not rebounding as much as originally anticipated, leaving the inventory imbalance in place for a longer period of time.

By itself, consumer hesitancy would not be sufficient to generate a recession in 1985. Government spending on goods and services remains strong. Declining interest rates should intensify housing activity, at least until recessionary worries restrain housing demand at any prevailing rate of interest. Although the trade accounts could continue to deteriorate, the spread of orderly marketing arrangements, the maintenance of economic expansion in Europe and the Pacific basin, the beginning of economic recovery in Latin America, and the already large penetration of imports in the exposed domestic markets suggest that further deterioration on the trade accounts should not be substantial.

While all of these factors suggest that sluggish economic activity is likely in 1985, they do not point to a recession.

However, the proposed tax reform and budgetary cuts being debated in Washington may extract enough fiscal thrust and stall enough investment projects to generate the recession that otherwise might be avoided. Of course, monetary economists already are claiming that Federal Reserve policy has been sufficiently restrictive to dictate a recessionary outcome. Our analysis suggests that, at least, this time, the money stock reflects prevailing economic conditions and should not be used as a guide to predict future economic outcomes. The Federal Reserve apparently pursued inappropriate policy during the summer months, when it restricted the growth of the monetary base during a period when the dollar was rallying strongly in foreign currency markets. In effect, an increasing nondomestic demand for money was not being accommodated by the Federal Reserve. The decline in the money stock during the fall, however, clearly reflects a collapse in the money multiplier and occurred as rates on commercial paper fell sharply below federal funds rates. This suggests that a weakening in private demand for funds initiated the slowing in monetary aggregates. To be sure, the Federal Reserve was slow to inject new reserves into the banking system, possibly under the mistaken fear that this would cause the dollar's value to plummet. However, the decline in M1 during October is associated with weak money demand rather than restraint on the money supply.

Without closely examining all the factors related to the tax reform package, several basic things should be identified. First, the Treasury program seeks to develop an inflation-neutral tax code. Because ACRS depreciation guidelines were established on an arbitrary basis, which achieves neutrality in resource allocations only if capital goods inflation persists at approximately 7%, sharply reduced inflationary rates for capital goods have led to a tax reduction windfall for those increasing capital stock. This is the major reason why the Treasury proposal sharply increases the corporate tax-take while establishing inflation neutrality. Adjustments for the inflation component of interest income, adjustments for the cost basis of property and the treatment of capital gains, and adjustments for inventory charge-offs all are consistent with the inflation neutrality objective.

Second, the Treasury's proposal tries to establish resource allocation neutrality. Thus, the use of tax exempt financing for private purposes is disallowed. The investment tax credit, a device for encouraging capital intensity, is eliminated. Private purpose business deductions, such as corporate box seats at athletic events, is denied. Possible interregional allocation distortions through differential use of state and local taxes is addressed by repealing tax deductibility. (Although the argument for repeal of this deduction is not compelling. Apparently, the Treasury proposal needed sufficient revenue offsets to permit a meaningful reduction in marginal tax rates.) Beginning to tax employer contributions to employee benefits also addresses the resource allocation issue.

Close inflation neutrality and reduced resource distortions are where the tax codes have considerable merit. Indeed, the inflation neutrality proposals are worthy of enactment, despite their impact upon raising current corporate taxation. However, the tax proposals are not neutral in their impact upon economic conditions or upon the livelihood of several industries. Real estate development and oil and gas exploration are sharply penalized by the tax reforms. In the case of real estate shelters, the only possible offset is on the basis adjustment for those properties that have not experienced substantial price appreciation in recent years. Changes in marginal tax rates reduce the attractiveness of real estate investments. For that reason, the real estate industry effectively has no offset from the repeal of ACRS, denial of ITC, changing capital gains provisions for those properties that have commanded significant price appreciation, and a reduced interest rate deductibility for other than the primary residence. Also, the economic attractiveness of the primary residence is reduced, for the reduction of marginal tax rates reduces the value of the mortgage deduction. However, single family housing should not be appreciably influenced by these tax provisions. (Repeal of tax exempt financing for mortgage subsidies could reduce the demand for housing at the lower end of the housing spectrum.) The impact upon rental housing, commercial real estate, and office facilities, is substantial. In all cases, properties must generate substantial property income to offset the diminished tax advantage. Thus, properties would need to produce more rental income in order to command the same market prices that they currently are receiving. It is incorrect, however, to assume that rents will immediately rise. In fact, existing facilities will try to lower their acceptable vacancy rates. The net effect will be to create a glut of available space. Rents initially will fall even as property values will decline. Although all estimates must be speculative, the market value of real estate wealth probably would decline by more than 5%, more than a quarter trillion dollars. Such a decline in the market value of wealth holdings will intensify financial instability and will further discourage consumer spending.

Of course, the decline in prices of existing facilities and the temporary space glut that will reduce the ability to raise rents, will sharply reduce real estate development. A significant drop in construction activity for rental, commercial, and office space should follow. In the long run, the real estate industry will rebound, after the decline in construction activity leads to supply conditions that once again will permit rents to rise sufficiently to justify new construction. Vacancy rates will be sharply reduced. Probably, the equilibrium vacancy rate for rental properties will fall to less than 4% while vacancy rates for office buildings will fall to the 6-7% rate that prevailed in the early 1970s when tax distortions were not substantial. It is inconceivable that the adjustment to that new equilibrium in real estate usage and construction can be achieved without a significant economic decline.

As gains in total factor productivity no longer are showing sustantial improvement over their performance in the 1970s, it appears that increased capital intensity has not been efficiently allocating productive resources. Indeed, such resource misallocation is a major argument for regaining inflation neutrality in the tax codes. Nevertheless, the capital spending boom that developed in late 1983 and early 1984 partially reflected favorable tax treatment. Repeal of ACRS almost certainly would slow capital spending. During a period of time when consumer spending no longer appears to be vigorous, such a tax adjustment would eliminate the investment prop from further economic expansion in the current business cycle. Because the capital stock other than real estate is relatively rapidly exhausted in its productive use, the wealth effect associated with a tax change on depreciation would not be dramatic. However, assuming a 2-3% reduction in the market value of existing capital and assuming that equity financing is less than half the ownership of that capital, equity values could fall approximately 8%. This would reduce another $150 billion from the current market value of household wealth holdings.

In short, a recession almost certainly would materialize upon enactment of the tax reform proposal. Indeed, as the wealth effects are not insignificant and the impact upon reduced investment desires is substantial, the magnitude of the recessionary correction could be more significant than any economists have assumed. On the other hand, the program redresses an imbalance between savings and investment that was generated by the 1981 tax package. Real rates of interest almost certainly would decline even as the recession would be pushing government deficits upward. The recession, itself, probably would be sufficient to restrain inflationary pressures by more than the amount that inflation would be stimulated through the removal of reduced tax liabilities. Thus, market rates of interest should fall significantly. Of course, the recession and declining market rates almost certainly would discourage foreign investors from holding U. S. currencies. The dollar should fall significantly in value, ultimately redressing some of the trade imbalances that currently prevail. This correction in currency values probably would increase inflationary pressures.

In summary, full enactment of the tax reform proposals by the Treasury almost certainly would create a recession, would lead to economic conditions that would sharply reduce the dollar's value, possibly by 20-25%, would lead to both reduced real and nominal interest rates, but would improve the efficient use of capital resources. Thus, the longer term growth path probably would increase after the recessionary adjustment has been completed. Equity values probably would fall, although the degree of vulnerability might be limited to less than 10%.

Certainly, such results as outlined above may be sufficient to doom the tax proposals. However, some portion of those proposals may be enacted, and would have some impact upon restraining construction and capital spending in 1985 and beyond. For this reason, uncertainty alone may be sufficient to create a mild recession before the end of 1985.

Quarterly Profile of GNP

	1984-3	1984-4	1985-1	1985-2	1985-3	1985-4
Real:	1.9	2.4	2.9	2.2	2.3	2.1
Price:	3.7	4.1	5.1	4.2	4.7	4.8
Nominal:	5.7	6.6	8.1	6.5	7.1	7.0

Monthly Statistical Highlights for November 1984

Personal income +0.6%; savings rate 6.2%; personal consumption +0.9%; retail sales +0.5%; auto sales 10.0 million; housing starts -0.1%; housing permits -1.1%; construction expenditures -0.1%; business inventories +0.6%; orders for durable goods +3.1%; orders for nondefense capital goods +3.5%; industrial production +0.4%; CPI +0.4%; PPI +0.6%; consumption deflator +0.4%; leading indicators +0.2%; real GNP +3.0%; M1 +10.8%; M2 +9.4%.

Monthly Statistical Highlights for December 1984

Payroll employment +112,000; index of hours worked -0.1%; household employment +159,000; civilian unemployeemnt rate 7.4%; personal income +0.7%;

savings rate 6.0%; personal consumption +0.7%; retail sales +0.8%; auto sales 10.2 million; housing starts -0.3%; housing permits -2.6%; construction expenditures +0.1%; business inventories +0.7%; orders for durable goods +2.2%; orders for nondefense capital goods +4.0%; industrial production +0.4%; CPI +0.3%; PPI +0.3%; consumption deflator +0.4%; leading indicators +0.4%; real GNP +6.0%; M1 +10.8%; M2 +10.5%.

COMMENTARY

Employment - Retailers were aggressive in adding to their personnel in the hopes of a Christmas that does not appear to be materializing. As a result, payroll growth is expected to be sharply reduced in the months ahead. Also, the hours worked are growing more rapidly than output, suggesting that imbalances are developing in the labor market. This instability in labor market pressures has led to a moderation in wage demands. The hourly earnings index is now only 3.1% above previous year highs, the lowest level of this entire expansion. In the past three months, hourly earnings have increased at only a 2.5% annual rate.

Personal Income and Outlays - Strong gains in property income led to slightly higher gains in personal income than originally anticipated. With interest rates currently declining, gains in property income should develop more slowly, especially early in 1985. The absence of further tax benefits indicates that disposable income will be growing more slowly than personal income in the next twelve months, a reversal of conditions that prevailed in the previous three years. Although estimated savings have been raised from forecasted values, the savings rate still falls more sharply in 1985 than consumer theory would suggest. Thus, further downward revisions in outlays and in economic activity are possible.

Personal outlays provide a better reading of consumer activity than the advanced report on retail sales. According to the advanced report, durable goods spending rose. However, sales of auto units indicate that auto sales should have fallen. The outlays figures clearly confirmed that the advance retail sales estimates were in error and require substantial downward revisions next month. Those revisions have not been included in our projections, although the retail estimates for November have been made consistent with the unit auto sales occurring at that time.

Weakness in auto sales during the last 10 days of November cannot be ignored as a delayed effect of the GM strike. The decline to 6.4 million domestic units strongly suggests that consumers may be less willing to support the economy than our projections suggest. An important signal of auto sales activity has been prices for used automobiles. If availability had been a significant factor, used car prices should be rising. However, used car prices have declined in three of the past four months. It is possible that our projections for automobile sales are too high and will need to be revised downward in our next report.

Construction - Sales of single family residences suggest that single family housing starts are about to bottom-out. Increases are expected in the months ahead. Indeed, single-family activity could exceed our current projections if interest rates remain moderate. Unfortunately, the uncertainty created by tax reform proposals almost certainly will slow multi-family activity. In addition, any recessionary tendencies would adversely affect the magnitude of housing recovery.

Although uncertainty also may have an adverse effect upon non-residential construction, projects already in various phases of completion should be sufficient to ensure reasonable growth in expenditures on nonresidential projects through the end of 1985. Slowing beyond that period of time, or an actual decline, could then materialize. Public construction continues to be favored by financing for highways. However, a significant slowing in such construction gains is expected late in 1985.

Business Activity - Although business inventories are growing at reduced rates from earlier in the year, business sales continue to lag behind. As a result, the inventory overhang continues to build. If sales do not rebound in the next few months, a more substantial inventory correction may be required. Desired inventories almost certainly will grow more slowly than originally projected as economic growth also slows. There is no evidence at the present time, however, that any changes have occurred in desired inventories relative to sales.

One of the most disconcerting influences has been the drop in nondefense capital goods orders. These orders now are running more than $1 billion below shipments and soon should be slowing shipments if an orders rebound does not materialize. Some strength in orders is expected to develop, although the capital spending boom appears to be over.

Prices - The construction deflator continues to be a surprise. In October the index fell by nearly 0.4%. As interest rates decline, prices of some building materials are expected to rebound. However, the magnitude of increasing costs is expected to remain modest. Also, current pressures exerted upon the construction industry should continue to restrain construction wages. Only site costs appear to be a significant problem at the present time. Indeed, implicit construction costs probably will rise by less than 3.7% in the next twelve months.

Prices for consumer nondurables are expected to stall in the spring, as petroleum prices are expected to drop at that time. This will also have a constraining effect upon the Consumer Price Index. Consumer prices may grow more slowly in the second quarter than in the first quarter of 1985. However, expected weakness in the value of the dollar should lead to rising inflationary pressures late in 1985. Nevertheless, moderation of inflation for consumer goods might be the offset necessary to preserve a reasonable degree of economic expansion.

Miscellaneous - Unusual factors appear to have distorted the trade deficits during the third quarter. In July, retailers rushed to accumulate foreign goods before import restrictions were imposed. In fact, most of those restrictions never materialized. The swing in trade balances during September and October appear to reflect reporting difficulties rather than changes in economic conditions. The slowing in economic conditions in the United States should slow the growth of imports. As a result, trade deficits are not expected to be quite as large as anticipated a month ago.

Reduced inflationary pressures have diminished the inventory valuation adjustments. In fact, negative inventory profits appear to have occurred in August and September. No significant inventory profits are anticipated until the latter months of 1985. This means that the quality of reported profits will remain unusually high. On the other hand, it will be difficult to further improve the quality of profits from their current levels.

FINANCIAL MARKETS

Money demand continues to be surprisingly weak through the first part of November. A rebound in the money stock in the middle of November was partly related to seasonal distortions, but signs of some strength in money demand also appeared. This should generate increased money growth in the next few months, although the ratio of money-to-monetary base is not expected to exceed 2.57 in 1985. By contrast, the ratio slightly exceeded 2.60 for a few months early in 1984.

Until this increased money demand surfaced, sensitive short-term interest rates continued to tumble. We are now anticipating some firming in those rates, as the 9.07% federal funds rate for December is above current quotations. It should be noted that commercial paper led the federal funds rate downward, clearly indicating that private market demand pressures rather than Federal Reserve restraint has been responsible for current interest rate movements. The sluggishness in projected economic activity suggests that sensitive short-term interest rates will trade in a remarkably narrow band throughout 1985. Although the prime rate may not fall significantly below 11%, acccording to our latest projection, no significant rise in the prime rate is anticipated either. Little further improvement is anticipated for long-term interest rates, although the possibility that tax reform could change the savings-investment mix in favor of significantly lower interest rates cannot be ruled out. Indeed, investors probably should be accumulating long-term bonds at the present time. The municipals market has deteriorated dramatically as a result of enormous supply. This supply should taper off significantly early in 1985. Although tax reform could have an adverse effect upon individual desires for acquiring municipal bonds, changes in the supply of tax exempt bonds for private purposes could completely offset the adverse marginal tax rate impact. With municipals currently trading at .85 of Corporate Aaa, little further deterioration is expected in that market. Indeed, speculators probably could receive a higher return by acquiring long-term municipal bonds than by purchasing other long-term instruments.

Equity Markets - Corporate profits will continue to decline, at least until declining short-term interest rates begin to provide relief from reduced financing costs. In addition, the uncertainty surrounding tax reform could adversely impact the market value of equity ownership. We feel the markets will fall to a Dow Jones of 1100 early in 1985. More significant declines are possible if a full fledged recession develops. However, declining interest rates should begin rallying the equity markets before the end of 1985. A rebound to new highs in 1986 seems likely under most scenarios.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	94350	94350	112.6	112.6	105395	105395	7.5	7.5	160.8	160.8
August	94532	94523	112.6	112.7	104969	104969	7.5	7.5	160.6	160.6
September	94671	94807	113.2	113.4	105239	105239	7.4	7.4	161.7	161.6
October	95195	95150	113.3	113.2	105655	105586	7.4	7.4	162.0	161.4
November	95317	95453	113.5	114.0	105820	105872	7.4	7.2	162.4	162.1
December	95478	95529*	113.8	113.9*	106012	106022*	7.5	7.4*	162.8	162.6*
January 1985	95622	95663	113.9	113.9	106307	106110	7.4	7.5	163.5	163.2
February	95811	95704	114.1	113.8	106629	106262	7.3	7.5	164.2	163.8
March	96015	95866	114.2	113.8	106948	106538	7.2	7.4	164.9	164.5
April	96193	96037	114.4	114.0	107126	106772	7.2	7.3	165.5	165.1
May	96328	96186	114.7	114.1	107378	107193	7.1	7.2	166.0	166.3
June	96463	96335	115.0	114.3	107622	107249	7.1	7.2	167.3	166.9
July	96605	96484	115.1	114.3	107765	107482	7.1	7.2	168.1	167.5
August	96779	96623	115.2	114.5	107900	107706	7.1	7.1	168.8	168.2
September	96953	96765	115.3	114.7	108035	107894	7.1	7.1	169.4	168.8
October	97065	96926	115.4	114.8	108192	108171	7.0	7.1	169.4	168.8
November	97154	97053	115.6	114.9	108326	108198	7.1	7.2	170.1	169.4
December	97242	97178	115.8	115.1	108455	108451	7.1	7.1	170.9	170.0

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	3.027	3.027	1.812	1.812	158.5	161.4	2.587	2.588	2.428	2.427
August	3.045	3.045	1.816	1.817	174.2	176.7	2.603	2.605	2.429	2.429
September	3.071	3.068	1.828	1.829	161.5	154.8	2.625	2.625	2.463	2.470
October	3.087	3.086	1.835	1.833	160.9	170.9	2.636	2.640	2.475	2.469
November	3.106	3.106*	1.848	1.843*	147.9	163.8*	2.649	2.655*	2.501	2.491
December	3.125	3.127	1.858	1.852	143.9	161.2	2.662	2.671	2.518	2.510
January 1985	3.134	3.138	1.870	1.863	135.1	149.4	2.671	2.680	2.536	2.531
February	3.148	3.157	1.879	1.873	131.4	150.1	2.685	2.695	2.554	2.545
March	3.163	3.172	1.888	1.884	134.3	152.3	2.701	2.712	2.567	2.560
April	3.181	3.192	1.898	1.893	127.1	144.4	2.715	2.723	2.588	2.579
May	3.201	3.208	1.909	1.902	122.4	145.3	2.729	2.735	2.607	2.590
June	3.220	3.225	1.921	1.912	128.7	141.7	2.744	2.748	2.615	2.606
July	3.241	3.242	1.931	1.919	129.1	140.5	2.760	2.761	2.631	2.621
August	3.261	3.265	1.942	1.929	130.0	142.6	2.776	2.780	2.646	2.637
September	3.280	3.284	1.952	1.941	129.0	142.5	2.793	2.795	2.664	2.653
October	3.299	3.300	1.963	1.949	126.5	133.9	2.810	2.807	2.684	2.673
November	3.318	3.318	1.973	1.958	119.6	136.8	2.821	2.822	2.701	2.685
December	3.339	3.335	1.984	1.969	117.8	132.2	2.833	2.835	2.715	2.703

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	2348.7	2347.1	320.2	320.2	859.2	859.2	1169.2	1167.6	1064.8	1064.8
August	2347.8	2347.5	313.6	312.5	856.1	853.5	1181.8	1181.4	1058.5	1058.2
September	2381.3	2387.9	318.1	322.7	874.5	870.6	1188.7	1194.6	1070.3	1073.9
October	2391.7	2386.2	319.5	319.7	876.9	866.3	1195.3	1200.2	1070.6	1067.5*
November	2416.5	2407.3*	325.8	323.9*	884.7	874.1*	1206.0	1209.3*	1077.4	1072.9
December	2432.3	2424.9	327.6	328.0	888.0	879.3	1216.7	1217.6	1080.5	1076.7
January 1985	2449.9	2444.7	330.5	332.0	893.5	886.0	1225.9	1226.7	1084.5	1081.5
February	2466.4	2457.9	332.4	331.4	898.8	891.3	1235.2	1235.2	1088.0	1082.8
March	2478.5	2471.7	330.7	332.9	903.2	893.9	1244.6	1244.9	1089.5	1084.7
April	2498.7	2489.5	332.8	335.9	910.8	900.3	1255.1	1253.3	1094.5	1089.6
May	2516.4	2499.6	335.3	333.8	915.3	903.4	1265.8	1262.4	1097.9	1089.9
June	2524.2	2515.3	334.5	333.4	914.7	910.1	1275.0	1271.8	1097.0	1092.2
July	2538.8	2528.6	335.0	333.1	919.5	914.6	1284.3	1280.9	1098.6	1093.8
August	2553.1	2544.6	333.7	334.4	925.8	919.9	1293.6	1290.3	1100.0	1096.6
September	2570.1	2558.7	334.5	333.3	934.2	926.0	1301.4	1299.4	1103.0	1098.0
October	2588.6	2578.4	336.3	336.9	939.7	931.9	1312.6	1309.6	1105.8	1102.4
November	2605.6	2589.5	337.5	334.9	944.3	936.1	1323.8	1318.5	1107.8	1102.2
December	2618.5	2606.1	337.5	336.6	945.9	941.7	1335.1	1327.8	1108.1	1104.8

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	107.44	107.44	15.44	15.44	10.6	10.6	69.99	69.99	22.02	22.02
August	106.81	106.61	15.58	15.60	9.9	9.9	70.15	69.83	21.08	21.08
September	108.52	107.87	15.52	15.58	10.2	10.2	71.64	71.21	21.36	21.09
October	108.88	107.72	15.57	15.80	10.0	9.7	71.84	70.09	21.47	21.83
November	110.25	108.21*	15.44	15.74*	10.4	9.8	72.48	70.72*	22.33	21.75*
December	111.00	109.10	15.40	15.76	10.8	10.2*	72.75	71.14	22.85	22.20
January 1985	111.72	110.11	15.46	15.72	10.8	10.8	73.20	71.68	23.06	22.71
February	112.37	110.47	15.45	15.81	10.8	10.7	73.63	72.11	23.29	22.55
March	112.33	110.86	15.48	15.84	10.6	10.7	73.89	72.33	22.96	22.69
April	113.26	111.72	15.43	15.93	10.8	10.8	74.41	72.84	23.42	22.95
May	113.95	111.73	15.52	15.96	10.9	10.6	74.78	73.09	23.65	22.68
June	113.61	112.22	15.50	16.02	10.7	10.5	74.83	73.63	23.28	22.57
July	114.16	112.56	15.57	16.10	10.7	10.4	75.22	74.00	23.36	22.46
August	114.43	113.14	15.91	16.18	10.4	10.4	75.74	74.43	22.78	22.53
September	115.21	113.50	15.89	16.27	10.4	10.3	76.43	74.92	22.89	22.31
October	115.87	114.39	15.89	16.41	10.5	10.3	76.88	75.40	23.10	22.58
November	116.39	114.50	15.97	16.40	10.5	10.2	77.26	75.74	23.16	22.36
December	116.41	115.15	16.14	16.49	10.3	10.2	77.49	76.19	22.78	22.47

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	280.0	280.0	101.70	101.70	27.65	27.65	25.86	25.86
August	283.5	283.5	102.02	102.02	26.50	26.50	26.05	26.05
September	285.2	285.4	97.61	98.68	27.10	27.84	27.46	27.74
October	287.8	286.6	95.63	95.21	26.25	25.25	27.05	26.44
November	290.3	288.2*	97.26	98.15	27.03	26.14	27.23	26.59
December	292.6	290.3	98.41	100.30	27.49	27.18	27.41	27.03
January 1985	294.8	292.4	99.53	98.64	27.63	26.63	27.86	27.15
February	296.9	294.3	99.96	100.92	27.99	27.41	28.01	27.46
March	299.5	296.0	98.27	100.55	28.05	27.38	28.17	27.41
April	301.4	297.8	100.05	101.43	28.07	27.54	28.32	27.32
May	303.9	299.4	100.83	102.27	28.15	27.68	28.49	27.49
June	306.5	300.6	101.26	103.14	27.92	28.02	28.66	27.63
July	309.0	302.0	100.95	103.29	27.84	28.05	28.79	27.81
August	311.2	304.1	101.83	102.75	28.06	27.96	28.91	27.92
September	313.2	305.8	102.27	101.46	28.55	28.09	29.06	28.04
October	315.2	307.3	103.36	102.66	28.52	28.32	29.37	28.09
November	317.4	308.9	103.35	103.94	28.52	28.32	29.47	28.05
December	319.9	310.4	104.42	103.55	28.69	28.30	29.58	28.42

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	551.2	551.2	5.99	5.99	165.8	165.9	82.7	82.7
August	556.2	556.2	6.13	6.13	166.1	166.1	82.6	82.6
September	558.5	559.8	5.88	6.14	165.1	165.2	81.9	82.0
October	564.6	562.3*	6.15	6.31	165.6	165.2	82.0	81.8
November	567.8	565.9	6.31	6.26	166.4	165.9*	82.2	82.0*
December	571.9	570.0	6.47	6.42	167.0	166.5	82.4	82.2
January 1985	576.3	573.7	6.56	6.53	167.0	166.6	82.2	82.0
February	580.7	577.4	6.64	6.71	166.9	166.8	82.0	81.9
March	584.9	580.7	6.71	6.75	167.4	167.0	82.1	81.8
April	588.7	584.6	6.86	6.84	167.8	167.3	82.1	81.9
May	592.5	587.7	6.95	6.95	168.2	167.5	82.2	81.9
June	597.9	590.3	6.95	7.01	168.5	167.8	82.2	81.9
July	602.5	593.3	7.13	7.11	168.9	168.1	82.3	81.9
August	606.4	597.8	7.39	7.20	169.2	168.3	82.3	81.8
September	610.8	601.0	7.42	7.28	169.5	168.6	82.3	81.8
October	614.7	603.9	7.49	7.35	169.8	169.0	82.3	81.9
November	618.8	607.0	7.55	7.43	170.3	169.3	82.4	82.0
December	622.0	609.9	7.62	7.51	170.7	169.5	82.5	81.9

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	1.754	1.754	0.990	0.990	1.565	1.565	311.2	311.2	191.0	191.0
August	1.539	1.539	0.932	0.932	1.506	1.506	311.6	311.0	190.9	190.6
September	1.676	1.663	1.009	1.009	1.424	1.439	312.5	310.5	191.0	189.7
October	1.596	1.515	0.968	0.932	1.397	1.408	313.9	315.8	191.4	193.7
November	1.582	1.513*	0.985	0.916*	1.406	1.392*	314.9	315.5*	191.5	192.7*
December	1.562	1.508	0.984	0.924	1.411	1.356	316.0	315.7	191.6	192.5
January 1985	1.531	1.519	0.962	0.947	1.385	1.341	315.0	313.4	190.7	190.8
February	1.542	1.514	0.951	0.962	1.371	1.350	313.4	314.9	189.4	191.2
March	1.523	1.509	0.943	0.983	1.352	1.356	311.0	315.9	187.6	191.5
April	1.548	1.504	0.968	1.007	1.379	1.347	313.8	317.3	188.6	191.8
May	1.569	1.524	0.997	1.032	1.401	1.362	317.0	318.2	189.8	191.8
June	1.599	1.553	1.017	1.056	1.443	1.388	320.0	319.3	190.9	191.8
July	1.637	1.598	1.043	1.092	1.502	1.427	323.9	321.4	192.8	192.3
August	1.678	1.616	1.056	1.085	1.509	1.452	327.3	324.0	194.2	193.2
September	1.734	1.624	1.069	1.091	1.543	1.466	329.7	326.3	195.2	194.0
October	1.762	1.669	1.118	1.126	1.558	1.489	333.9	328.7	197.0	194.6
November	1.801	1.715	1.173	1.163	1.579	1.528	336.8	330.4	198.0	195.1
December	1.846	1.729	1.227	1.198	1.608	1.563	339.7	334.7	198.9	196.9

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	119.7	119.7	56.2	56.2	135.3	135.3
August	120.0	120.7	56.2	56.5	135.4	133.8
September	121.3	121.9	56.7	57.4	134.5	131.2
October	122.6	124.0	57.3	57.8	134.0	134.0
November	123.9	125.3*	57.8	58.5*	133.2	131.7*
December	125.1	126.0	58.4	58.9	132.5	130.8
January 1985	125.6	126.6	58.8	59.4	130.6	127.4
February	125.9	127.2	59.0	59.8	128.5	127.9
March	126.2	127.7	58.4	60.1	126.4	128.1
April	127.0	128.4	59.0	60.4	127.8	128.5
May	127.9	129.1	59.8	60.7	129.3	128.4
June	128.5	129.9	60.6	61.0	130.9	128.4
July	129.6	130.6	60.9	61.4	133.4	129.4
August	130.0	131.3	60.8	61.8	136.5	130.9
September	128.8	131.9	60.8	62.1	140.1	132.3
October	129.7	132.2	61.5	62.5	142.7	134.0
November	130.9	132.0	61.7	62.9	144.2	135.5
December	132.1	133.5	61.8	63.3	145.8	137.9

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	311.0	311.0	292.2	292.2	324.0	324.0	223.85	223.80
August	312.4	312.4	291.9	291.9	323.5	323.5	224.39	224.43
September	313.6	313.5	291.3	291.4	322.3	322.3	224.84	225.08
October	314.5	314.8	292.2	290.8	324.0	323.2	225.80	225.81
November	315.8	316.0*	293.0	292.6*	324.7	323.3*	226.81	226.76
December	317.0	317.1	293.8	293.5	325.3	324.0	227.80	227.60
January 1985	318.0	318.2	294.7	294.4	326.0	324.8	228.93	228.70
February	319.1	319.6	295.7	295.3	326.6	325.4	229.51	229.61
March	320.2	320.8	296.6	296.2	327.2	326.0	230.09	230.44
April	321.4	321.6	297.3	296.5	327.0	325.5	231.02	231.09
May	322.6	322.7	298.4	297.4	328.0	325.9	231.90	231.94
June	323.9	324.1	299.6	298.3	328.6	326.8	232.78	232.91
July	325.4	325.4	300.7	299.2	329.4	327.9	233.70	233.79
August	326.9	326.5	301.9	299.5	330.1	328.6	234.62	234.64
September	328.3	327.9	303.1	300.4	330.8	329.4	235.54	236.58
October	329.7	329.2	304.6	301.3	332.4	331.3	236.60	236.47
November	331.1	330.6	305.8	302.5	332.8	332.0	237.54	237.46
December	332.5	332.0	307.1	303.7	333.3	332.9	238.47	238.35

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	220.6	220.4	179.4	179.4	216.9	216.9	238.5	238.2	162.9	162.9
August	221.8	221.8	179.2	179.1	218.3	218.2	239.8	239.8	163.2	163.2
September	222.5	222.4	179.1	179.3	218.6	218.3	241.0	241.3	163.6	163.7
October	223.4	223.5*	180.3	180.0*	219.3	219.1*	242.1	242.7*	164.0	163.2
November	224.3	224.4	181.3	180.7	219.9	219.6	243.3	244.0	164.4	163.7*
December	225.1	225.2	182.2	181.4	220.4	220.1	244.4	245.3	164.9	164.0
January 1985	225.9	226.0	182.7	182.0	220.9	220.7	245.7	246.5	165.2	164.3
February	226.7	227.0	182.9	182.5	221.4	221.4	246.9	247.7	165.5	164.7
March	227.5	227.9	183.0	182.8	221.9	222.0	248.0	249.0	165.8	165.0
April	228.3	228.5	183.3	182.5	222.6	222.4	249.3	250.3	166.4	165.4
May	229.2	229.3	183.1	182.9	223.1	222.7	250.7	251.6	167.0	165.9
June	230.1	230.3	183.7	183.4	223.5	223.2	252.0	253.0	167.6	166.5
July	231.1	231.2	184.0	183.8	224.3	223.7	253.3	254.3	168.0	167.1
August	232.1	232.0	184.4	184.2	225.2	224.1	254.7	255.7	168.5	167.7
September	233.0	233.0	184.8	184.7	226.1	224.7	256.0	257.0	168.9	168.2
October	234.1	233.9	185.2	185.0	226.9	225.6	257.4	258.2	169.5	168.9
November	235.2	234.9	185.7	185.4	227.7	226.3	258.8	259.6	170.1	169.4
December	236.3	235.9	186.2	185.8	228.5	227.1	260.2	260.9	170.8	170.0

Fore. = November Forecast
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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July	-14.06	-14.06	163.7	163.9	3690	3686	1648	1647	1.8	1.5
August	-9.86	-9.86	164.5	164.0	3703	3698	1650	1648	0.3	-0.3
September	-11.31	-12.65*	164.4	165.0	3711	3702	1651	1645	-0.3	-0.3
October	-11.85	-9.18	164.3	163.8	3739	3720	1656	1647	1.6	0.5
November	-12.02	-9.73	164.9	164.1	3760	3749	1658	1653	3.5	1.2
December	-11.09	-11.14	165.6	164.7	3789	3782	1663	1661	5.1	2.8
January 1985	-12.06	-10.96	165.9	165.1	3808	3798	1663	1660	5.5	3.6
February	-12.29	-10.73	166.4	165.0	3833	3826	1670	1666	5.9	5.2
March	-12.55	-11.28	167.3	165.4	3859	3854	1677	1672	5.9	4.9
April	-12.85	-11.69	167.7	165.9	3882	3870	1680	1674	4.7	2.6
May	-12.62	-12.56	167.6	166.8	3903	3881	1683	1673	5.2	4.7
June	-12.43	-12.21	167.5	167.5	3925	3910	1686	1678	5.7	6.8
July	-12.55	-11.85	168.2	167.2	3950	3931	1690	1681	6.6	7.9
August	-12.48	-11.62	168.5	167.0	3974	3954	1694	1685	8.3	9.3
September	-12.40	-11.23	168.9	167.8	4000	3977	1698	1688	10.0	9.0
October	-12.56	-11.46	168.8	168.3	4026	4000	1702	1691	11.7	10.1
November	-12.50	-11.27	169.5	168.6	4051	4015	1705	1690	13.0	10.6
December	-12.04	-10.98	170.4	169.0	4077	4044	1710	1697	14.3	11.4

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	212.5	212.5	545.6	547.8	2281.4	2281.9	11.23	11.23	10.52	10.52
August	212.7	212.7	546.4	546.7	2290.1	2291.1	11.64	11.64	10.61	10.61
September	215.0	215.0	549.0	548.9	2304.7	2305.8	11.30	11.30	10.47	10.47
October	214.8	214.6	547.5	545.5	2317.8	2317.2	10.03	9.99	9.72	9.87
November	215.5	216.1*	550.3	549.2*	2330.1	2334.7*	9.92	9.53*	9.03	8.83*
December	216.2	217.2	553.1	553.9	2342.4	2354.2	9.90	9.07	9.21	8.42
January 1985	217.1	217.7	557.3	558.4	2361.6	2373.8	10.07	9.15	9.48	8.63
February	218.1	218.2	560.5	561.4	2379.7	2392.8	10.24	9.23	9.64	8.76
March	219.0	219.0	563.6	562.8	2398.8	2407.2	10.41	9.44	9.80	8.93
April	220.7	220.2	566.7	564.8	2413.2	2424.1	10.60	9.37	9.95	8.79
May	222.3	221.6	569.9	567.5	2429.8	2443.5	10.73	9.53	10.03	8.85
June	223.9	222.8	573.1	570.4	2446.3	2460.6	10.53	9.42	9.90	8.75
July	224.9	223.6	577.0	572.2	2466.1	2475.4	10.46	9.22	9.87	8.57
August	225.8	224.9	581.1	575.7	2486.0	2495.2	10.39	9.25	9.73	8.64
September	227.0	225.8	585.1	578.3	2506.1	2512.7	10.31	9.39	9.59	8.51
October	228.0	226.7	586.8	580.8	2518.3	2530.3	10.03	9.54	9.32	8.79
November	229.1	228.0	587.9	583.7	2530.4	2548.0	9.78	9.39	9.08	8.62
December	230.2	229.3	589.0	586.8	2542.6	2568.4	9.47	9.64	8.84	8.87

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	13.44	13.44	10.42	10.42	11.19	11.19	11.56	11.56	13.00	13.00
August	12.87	12.87	10.06	10.06	11.18	11.18	11.47	11.47	13.00	13.00
September	12.66	12.66	10.03	10.03	11.04	11.04	11.29	11.29	13.00	13.00
October	12.53	12.63	10.22	10.22	9.82	10.12	10.15	10.38	12.59	12.58
November	12.35	12.35*	10.16	10.16*	9.75	9.28*	10.07	9.53*	12.00	11.76*
December	12.17	11.86	10.10	10.04	9.83	8.96	10.12	9.18	11.83	11.08
January 1985	12.46	11.94	10.37	10.15	10.04	9.22	10.27	9.47	11.75	11.00
February	12.55	12.13	10.48	10.25	10.20	9.45	10.43	9.66	11.50	11.00
March	12.64	12.26	10.52	10.30	10.43	9.56	10.65	9.72	11.50	11.22
April	12.79	12.34	10.62	10.37	10.65	9.40	10.88	9.61	11.56	11.50
May	12.92	12.32	10.79	10.30	10.78	9.47	10.95	9.68	12.12	11.50
June	12.87	12.17	10.64	10.08	10.62	9.36	10.86	9.55	12.50	11.50
July	12.64	12.09	10.39	9.97	10.53	9.17	10.73	9.38	12.50	11.50
August	12.56	12.02	10.30	9.86	10.39	9.13	10.58	9.33	12.50	11.50
September	12.48	12.18	10.18	9.93	10.22	9.26	10.46	9.55	12.50	11.50
October	12.37	12.31	9.98	9.97	10.01	9.65	10.27	9.93	12.33	11.50
November	12.31	12.06	9.92	9.83	9.82	9.47	10.06	9.66	12.00	11.50
December	12.25	12.21	9.80	9.99	9.56	9.72	9.85	10.03	12.00	11.68

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MONTHLY PROJECTIONS
DECEMBER 1984

Dr. Donald Ratajczak, Director
For Release: January 18, 1985

INVENTORY ADJUSTMENT PAUSE IS OVER

An unexpected decline in consumer spending during the summer and fall quarters led to a more substantial accumulation of inventories than producers desired. By September, production restrainst to reestablish an appropriate inventory balance had begun in earnest. However, further consumption weakness prevented inventories from falling below sales until November. At that time, a rebound in consumer spending coupled with continued moderation in production schedules caused inventories to expand only 0.1% even as business sales were growing 1.1%. Although sales apparently weakened in December, the areas of weakness were automobiles, where temporary fluctuations in sales rather than any basic softness exists, gasoline and grocery stores. In the latter two instances, sales weakness is not directly related to further industrial activity. In addition, weak prices probably are as important as any other factor in explaining their slowdown. Other retail goods, from household durables to apparel and general merchandise all rebounded strongly in December, reducing inventories for the beginning of 1985.

Despite concern that Christmas was not creating as large a sales gain as most retailers desired, manufacturers were receiving sufficient orders to extend their work hours and increase their hiring during the month. With further liquidation of undesirable inventories, more normal flows of orders and production now are likely in the winter and spring months.

In addition to the termination of the inventory correction, economic activity appears to have been stimulated in recent months by a surge in nonresidential construction activity. Furthermore, a collapse in net exports during the third quarter reflected some unusual events along with the continuing deterioration of American competitiveness abroad. It is unlikely that the nearly 55% increase in imports at annual rates during the summer reflected a permanently higher intrusion of foreign goods into the American markets. Rather, overestimating the strength of Christmas sales and fears that marketing restraints would prevent the free flow of imports into this country caused a substantial surge in imports, which promptly went into inventories. During the fourth quarter, net exports actually will be rising, possibly by enough to offset the adverse effects from reduced inventory accumulation.

Are tax uncertainties already beginning to slow housing activity? In October, starts of housing with more than one unit were 571,000. By December, multi-family starts had fallen to 523,000. Weather was not a factor in this decline, as the south, which is most substantially impacted by weather, generated one of its stronger starts months during the relatively mild December weather. Permits for multi-family units have continued to grow, reaching 766,000 in December. Apparently, builders continue to make plans but are hesitant to commit resources until a clear understanding of possible tax changes can develop. If the President endorses tax reform in his State of the Union or Budgetary messages, many of these permits for multi-family units may never be utilized. Under those circumstances, the rebound in housing activity will fall short of numbers being generated in these projections.

Because the inventory correction appears to becompleted, greater economic strength now is expected in the first part of 1985 than in our earlier projections. Also, inflation is expected to remain surprisingly subdued through the first half of 1985. Our PPI projections for January indicate that deflationary forces currently are prevalent. Furthermore, a decline in oil prices sometime during the spring is very likely. While some acceleration of inflationary pressures is likely during the latter part of 1985, especially as unit labor costs are beginning to rise, the reduced inflationary environment suggests that consumer spending may be stronger than originally anticipated. Nevertheless, economic activity will continue to generate relatively meager profits, especially in commodity producing industries. This squeeze on corporate profitability should ultimately slow the expansion of nonresidential construction and capital goods. By the end of 1985, recessionary tendencies could reappear. For the present, however, the economic outlook appears to be more encouraging than previously projected for the first half of 1985.

Quarterly Profile of GNP

	1984-3	1984-4	1985-1	1985-2	1985-3	1985-4
Real:	1.6	2.9	4.3	4.7	3.3	2.7
Price:	3.9	2.9	3.9	3.7	4.2	4.8
Nominal:	5.6	5.9	8.4	8.6	7.6	7.6

Monthly Statistical Highlights for December 1984

Personal income +0.9%; savings rate 6.3%; personal consumption +1.0%; construction expenditures +1.3%; CPI +0.2%; consumption deflator +0.1%; leading indicators +0.4%; real GNP +6.0%.

Monthly Statistical Highlights for January 1985

Payroll employment +238,000; index of hours worked +0.3%; household employment +228,000; civilian unemployment rate 7.2%; personal income +0.3%; savings rate 5.9%; personal consumption +0.7%; retail sales +0.6%; auto sales 10.5 million; housing starts -1.3%; housing permits -5.8%; construction expenditures -0.5%; business inventory +0.5%; orders for durable goods +2.2%; orders for nondefense capital goods +2.4%; industrial production +0.5%; CPI +0.1%; PPI -0.2%; consumption deflator +0.2%; leading indicator +0.3%; real GNP +2.2%; M1 +10.9%; M2 +10.0%.

COMMENTARY

Employment - Several temporary factors added to the increase in payroll employment during December. Because of unusually mild weather, construction employment increased more than 50,000. Although payrolls of general merchandisers declined in December, reflecting weaker Christmas sales than anticipated, employment in other retail activities continued to grow sharply. Some slowing certainly should be anticipated in the months ahead. However, a 0.2 hour extension in the workweek strongly suggests that payroll employment once again will grow significantly in January. Initial claims have fallen sharply, but shortened processing hours as a result of holidays may partially explain those reductions. The strength in employment also generated a surprisingly strong 0.6% gain in the hourly earnings index. That index now is 3.4% above previous year levels and appears to have begun accelerating.

Personal Income & Outlays - After growing strongly late in 1984, personal income should slow abruptly during January as a result of estimated increases in Social Security taxes. Of course, part of this tax strain will be offset by reductions in personal tax estimates to reflect the impact that indexation will have upon tax liabilities. This will cause disposable income to grow relative to personal income. Our current estimates suggest that personal savings will decline in January, but this is also based upon minimal changes in the hourly earnings index following a December surge. If the hourly earnings index continues to grow robustly, wage and salary gains could be more significant that currently anticipated, but corporate profitability also would be more intensely squeezed.

Outlays are providing a better estimate of consumer activity than retail sales. While retail sales estimates suggest that automobile sales are weak, the outlays show the reverse. In January, sharp increases in stock market trading volume might lead to more significant gains in expenditures for imputed services than currently are expected. These projections show slower gains in dollar spending for personal consumption, but the moderation of inflation generates more rapid increases in inflation adjusted consumer spending. Thus, the consumer retrenchment is not as substantial as the slowing of nominal spending would suggest.

One of the apparent reasons for significant discrepancies between auto sales and the auto component of durable outlays may be the sales of minivans. Those vans are not included in unit sales of automobiles. (Of course, sales to businesses also could distort the difference between unit sales and sales reported by dealers.) In January, unit sales rebounded following a slow last 10 days of December. Thus, the weakness in the automobile component clearly is temporary. Later in the year, however, consumer debt will require nearly 18% of disposable income to be serviced. At that level, sales of big ticket items traditionally slow.

Construction - Reasons for a strong surge in construction of industrial and commercial property during the latter months of 1984 are not clear. Vacancy rates have been rising steadily. In addition, concern about tax changes might slow investment in activities that have long gestations. On the other hand, tax uncertainty might encourage the acceleration of programs that had been postponed. For whatever reason, this surge in commercial and industrial activity is expected to slow early in 1985. Moreover, after a modest gain in public construction activity should slow there as well. With problems becoming substantial in multi-housing starts, a rebound in housing activity should materialize slowly. While housing expenditures are expected to rise in 1985, the rate of increase may be more subdued than originally anticipated.

Especially favorable weather could lead to a significant increase in construction spending during December. This is why some slowing from that spending rate is anticipated in January.

The construction cost index began firming in November and our surveys for the PPI show that further increases now are developing into the winter months. No dramatic inflationary surge is expected, but the especially moderate price restraint for construction products appear to be over. In 1985, the construction cost index is expected to rise 3.7%.

Business Activity - As mentioned above, manufacturers' inventories declined in November, probably indicating the end of inventory restraint. As the inventory adjustment appears to be completed earlier than originally expected, more substantial gains are expected in industrial production during the winter and spring months.

Shipments of nondefense capital goods showed surprising gains in November despite the continued reduction of backlogs. More modest gains in shipments almost certainly will be developing even if orders show a modest amount of strengthening in the months ahead.

Prices - A surprisingly low estimate of the GNP deflator for the fourth quarter now is confirmed by our own monthly estimates of the GNP deflator. Similarly slow gains are now anticipated in the first half of 1985. Indeed, little growth is expected in the PPI until the second half of 1985. For all of 1985 consumer service prices are expected to increase 6.0% while price increases for consumer nondurables should be only slightly more than 2%. Because of aggressive pricing by automobile producers, prices for consumer durables are expected to grow 3.2%.

FINANCIAL MARKETS

The Federal Reserve decided to accommodate increasing money demand in December and January. Because of apparent seasonal adjustment problems, M1 did not appear to respond to the more significant growth in available reserves in December, although M2 grew dramatically. In January, the Federal Reserve expanded available reserves at an unusually aggressive rate. This has generated some growth in M1. At the same time, sensitive short-term interest rates have declined significantly. Apparently, the long-term market viewed this shift in supply restraints by the Federal Reserve as increasing inflationary dangers. The magnitude of price improvement for long-term debt instruments has not been significant in the past few months. As a result, the yield curve is especially steep at the present time. Short-term interest rates probably will rise late in the winter and during the spring as the initial Federal Reserve accommodation during this period of expanding economic activity will lead to accelerating growth in the monetary aggregatesa and a reversal of Federal Reserve ease. However, no dramatic gains in sensitive short-term rates are anticipated. Indeed, lower interest rates for commercial paper than for federal funds suggest that the demand for short-term credit may be as important in determining interest rates as the increased supply of available reserves.

Obviously, the inventory correction has significantly slowed the growth of short-term credit market pressures. To be sure, corporate profitability also has slowed. Nevertheless, the corporate sector's net use of the credit market has diminished. In January, higher Social Security taxes are further reducing the government deficit. Unfortunately, deficits will now be rising through the remainder of the year. The household sector has been increasing savings and reducing spending on new housing. Both positions will reverse themselves during the spring. Thus, pressures for rising interest rates soon will materialize. However, foreign investors are expected to remain infatuated with the dollar until the second half of 1985. Thus, interest rates should not be under as much pressure in 1985 as they were in the first half of 1984.

Municipals rallied even more dramatically than anticipated in our last report. A falloff in the supply of tax exempts has reduced the ratio of the bond buyer to seasoned AAA's to slightly more than .77. If tax changes occur, it is unlikely that this ratio will fall substantially further. For that reason, investors probably should begin taking profits in municipals and shifting toward taxable long-term securities.

Equity Markets - Stronger economic activity in the first half of 1985 suggests that corporate profits will be rising despite acceleration in hourly wage costs and some deterioration in productivity. In the second half of 1985, corporate profitability could be under downward pressures. Unfortunately, interest rates will be rising while corporate profits are also increasing. As a result, advances in equity values should be minor. The stock market is not expected to exceed 1250 on the Dow until late in 1985.

On the other hand, the downside risk in equity ownership should not be very great. Certainly, equity values are not expected to fall below 1100 as measured by the Dow Jones. By the end of 1985, the stock market could be rallying. Nevertheless, the preferred investment strategy at the present time probably is to purchase long-term bonds and interest sensitive stocks. Other funds could remain in short-term instruments until a pullback in the stock market provides investment opportunities in the latter half of 1985.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	94350	94350	112.6	112.6	105395	105377	7.5	7.5	160.8	160.8
August	94532	94523	112.6	112.7	105969	105148	7.5	7.5	160.6	160.6
September	94671	94807	113.2	113.4	105239	105394	7.4	7.4	161.7	161.6
October	95195	95154	113.3	113.2	105655	105649	7.4	7.3	162.0	161.3
November	95317	95489	113.5	114.0	105820	105932	7.4	7.1	162.4	162.0
December	95478	95798	113.8	114.5	106012	106273	7.5	7.2	162.8	163.0
January 1985	95622	96036*	113.9	114.8*	106307	106501*	7.4	7.2*	163.5	163.3*
February	95811	96178	114.1	114.9	106629	106611	7.3	7.3	164.2	163.8
March	96015	96332	114.2	115.1	106948	106776	7.2	7.3	164.9	164.4
April	96193	96490	114.4	115.3	107126	107002	7.2	7.3	165.5	165.0
May	96328	96649	114.7	115.4	107378	107198	7.1	7.3	166.0	165.6
June	96463	96793	115.0	115.6	107622	107355	7.1	7.2	167.3	166.3
July	96605	96963	115.1	115.8	107765	107546	7.1	7.2	168.1	167.0
August	96779	97096	115.2	115.9	107900	107737	7.1	7.1	168.8	167.7
September	96953	97231	115.3	116.1	108035	107973	7.1	7.1	169.4	168.4
October	97065	97340	115.4	116.2	108192	108146	7.0	7.0	169.4	169.1
November	97154	97495	115.6	116.4	108326	108306	7.1	6.9	170.1	169.8
December	97242	97620	115.8	116.6	108455	108448	7.1	6.9	170.9	170.5

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	3.027	3.028	1.812	1.812	158.5	158.7	2.587	2.589	2.428	2.430
August	3.045	3.046	1.816	1.817	174.2	174.3	2.603	2.605	2.429	2.431
September	3.071	3.068	1.828	1.829	161.5	159.2	2.625	2.625	2.463	2.466
October	3.087	3.079	1.835	1.832	160.9	171.2	2.636	2.633	2.475	2.462
November	3.106	3.100	1.848	1.846	147.9	164.6	2.649	2.648	2.501	2.483
December	3.125	3.129*	1.858	1.862*	143.9	167.5*	2.662	2.675*	2.518	2.507*
January 1985	3.134	3.139	1.870	1.873	135.1	157.6	2.671	2.683	2.536	2.525
February	3.148	3.155	1.879	1.882	131.4	155.2	2.685	2.695	2.554	2.540
March	3.163	3.171	1.888	1.892	134.3	152.3	2.701	2.707	2.567	2.555
April	3.181	3.188	1.898	1.902	127.1	153.0	2.715	2.721	2.588	2.568
May	3.201	3.199	1.909	1.912	122.4	143.6	2.729	2.728	2.607	2.584
June	3.220	3.222	1.921	1.923	128.7	146.9	2.744	2.749	2.615	2.602
July	3.241	3.243	1.931	1.935	129.1	149.4	2.760	2.765	2.631	2.616
August	3.261	3.260	1.942	1.946	130.0	153.3	2.776	2.780	2.646	2.627
September	3.280	3.284	1.952	1.957	129.0	161.0	2.793	2.800	2.664	2.639
October	3.299	3.300	1.963	1.967	126.5	154.3	2.810	2.814	2.684	2.660
November	3.318	3.319	1.973	1.978	119.6	145.2	2.821	2.829	2.701	2.684
December	3.339	3.338	1.984	1.989	117.8	148.6	2.833	2.844	2.715	2.695

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	2348.7	2350.5	320.2	320.2	859.2	859.2	1169.2	1171.1	1064.8	1066.1
August	2347.8	2350.1	313.6	313.2	856.1	853.5	1181.8	1183.4	1058.5	1059.5
September	2381.3	2383.7	318.1	318.2	874.5	871.6	1188.7	1193.8	1070.3	1072.2
October	2391.7	2378.6	319.5	316.5	876.9	863.9	1195.3	1198.2	1070.6	1066.9
November	2416.5	2398.9	325.8	321.5	884.7	865.4	1206.0	1212.0	1077.4	1074.5
December	2432.3	2422.2*	327.6	327.5*	888.0	872.9*	1216.7	1221.8*	1080.5	1082.9*
January 1985	2449.9	2438.5	330.5	332.0	893.5	875.8	1225.9	1230.7	1084.5	1087.8
February	2466.4	2453.0	332.4	334.2	898.8	880.4	1235.2	1238.4	1088.0	1090.3
March	2478.5	2467.0	330.7	335.5	903.2	884.2	1244.6	1247.3	1089.5	1092.4
April	2498.7	2479.2	332.8	336.2	910.8	886.5	1255.1	1256.5	1094.5	1094.0
May	2516.4	2494.6	335.3	337.9	915.3	891.8	1265.8	1264.9	1097.9	1099.1
June	2524.2	2511.3	334.5	339.7	914.7	896.3	1275.0	1275.3	1097.0	1102.7
July	2538.8	2523.8	335.0	338.9	919.5	901.0	1284.3	1283.9	1098.6	1104.1
August	2553.1	2533.8	333.7	334.6	925.8	906.7	1293.6	1292.5	1100.0	1103.6
September	2570.1	2545.1	334.5	333.7	934.2	912.3	1301.4	1299.1	1103.0	1104.2
October	2588.6	2564.9	336.3	334.7	939.7	918.6	1312.6	1311.6	1105.8	1108.2
November	2605.6	2588.2	337.5	341.1	944.3	926.4	1323.8	1320.7	1107.8	1114.3
December	2618.5	2598.7	337.5	339.9	945.9	929.4	1335.1	1329.4	1108.1	1113.8

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	107.44	107.44	15.44	15.44	10.6	10.6	69.99	69.99	22.02	22.02
August	106.81	106.61	15.58	15.60	9.9	10.0	70.15	69.83	21.08	21.08
September	108.52	108.24	15.52	15.77	10.2	10.2	71.64	71.19	21.36	21.28
October	108.88	108.73	15.57	15.89	10.0	9.7	71.84	70.32	21.47	22.52
November	110.25	110.90	15.44	16.29	10.4	9.8	72.48	71.61	22.33	23.01
December	111.00	110.82	15.40	16.47	10.8	11.0	72.75	71.88	22.85	22.47
January 1985	111.72	111.52*	15.46	16.38*	10.8	10.5*	73.20	72.05*	23.06	23.09*
February	112.37	112.07	15.45	16.42	10.8	10.6	73.63	72.33	23.29	23.32
March	112.33	112.45	15.48	16.48	10.6	10.6	73.89	72.56	22.96	23.41
April	113.26	112.72	15.43	16.49	10.8	10.5	74.41	72.75	23.42	23.48
May	113.95	113.36	15.52	16.63	10.9	10.5	74.78	73.18	23.65	23.55
June	113.61	113.94	15.50	16.66	10.7	10.6	74.83	73.55	23.28	23.73
July	114.16	114.24	15.57	16.73	10.7	10.4	75.22	73.94	23.36	23.57
August	114.43	114.19	15.91	16.77	10.4	10.2	75.74	74.41	22.78	23.01
September	115.21	114.55	15.89	16.80	10.4	10.1	76.43	74.87	22.89	22.88
October	115.87	115.18	15.89	16.91	10.5	9.9	76.88	75.38	23.10	22.89
November	116.39	116.58	15.97	17.09	10.5	10.1	77.26	76.02	23.16	23.47
December	116.41	116.68	16.14	17.13	10.3	10.0	77.49	76.27	22.78	23.28

Fore. = November Forecast
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* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	1.754	1.754	0.990	0.990	1.565	1.565	311.2	314.2	191.0	192.4
August	1.539	1.539	0.932	0.932	1.506	1.506	311.6	318.0	190.9	194.2
September	1.676	1.683	1.009	1.016	1.424	1.440	312.5	318.7	191.0	193.8
October	1.596	1.535	0.968	0.964	1.397	1.418	313.9	318.8	191.4	194.7
November	1.582	1.554	0.985	1.009	1.406	1.591	314.9	322.2	191.5	196.4
December	1.562	1.587	0.984	1.064	1.411	1.588	316.0	326.3*	191.6	198.2*
January 1985	1.531	1.567*	0.963	1.044*	1.385	1.496*	315.0	324.6	190.7	196.7
February	1.542	1.592	0.951	1.052	1.371	1.465	313.4	327.5	189.4	197.9
March	1.523	1.623	0.943	1.065	1.352	1.483	311.0	330.2	187.6	199.0
April	1.548	1.667	0.968	1.086	1.379	1.513	313.8	331.8	188.6	199.4
May	1.569	1.692	0.997	1.099	1.401	1.542	317.0	335.7	189.8	201.0
June	1.599	1.697	1.017	1.113	1.443	1.552	320.0	338.3	190.9	201.9
July	1.637	1.653	1.043	1.096	1.502	1.531	323.9	341.3	192.8	203.0
August	1.678	1.657	1.056	1.119	1.509	1.488	327.3	342.9	194.2	203.3
September	1.734	1.660	1.069	1.134	1.543	1.532	329.7	344.9	195.2	203.8
October	1.762	1.727	1.118	1.183	1.558	1.523	333.9	345.7	197.0	203.7
November	1.801	1.723	1.173	1.182	1.579	1.567	336.8	348.6	198.0	204.9
December	1.846	1.739	1.227	1.206	1.608	1.596	339.7	350.6	198.9	205.4

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	119.7	120.4	56.2	56.0	135.3	137.8
August	120.0	122.3	56.2	56.8	135.4	138.9
September	121.3	123.8	56.7	57.8	134.5	137.1
October	122.6	126.8	57.3	56.9	134.0	135.1
November	123.9	130.7	57.8	56.9	133.2	134.6
December	125.1	132.3*	58.4	58.0*	132.5	136.0*
January 1985	125.6	132.2	58.8	57.9	130.6	134.5
February	125.9	133.1	59.0	58.3	128.5	136.1
March	126.2	134.4	58.4	58.8	126.4	137.0
April	127.0	135.3	59.0	59.2	127.8	137.3
May	127.9	136.7	59.8	59.7	129.3	139.3
June	128.5	137.6	60.6	60.3	130.9	140.4
July	129.6	139.0	60.9	60.8	133.4	141.5
August	130.0	140.5	60.8	60.5	136.5	141.9
September	128.8	141.3	60.8	61.1	140.1	142.5
October	129.7	141.9	61.5	61.6	142.7	142.2
November	130.9	143.3	61.7	61.3	144.2	144.0
December	132.1	144.0	61.8	61.7	145.8	144.9

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	280.0	280.0	101.70	101.70	27.65	27.65	25.86	25.86
August	283.5	283.5	102.02	102.02	26.50	26.50	26.05	26.05
September	285.2	285.2	97.61	98.68	27.10	27.84	27.46	27.74
October	287.8	286.4	95.63	96.07	26.25	25.38	27.05	26.54
November	290.3	285.5	97.26	103.53	27.03	27.46	27.23	27.63
December	292.6	286.4	98.41	100.42*	27.49	27.11*	27.41	27.72*
January 1985	294.8	287.9	99.53	102.66	27.63	27.75	27.86	27.81
February	296.9	289.1	99.96	104.47	27.99	28.22	28.01	28.14
March	299.5	290.7	98.27	105.32	28.05	28.43	28.17	28.33
April	301.4	292.6	100.05	104.66	28.07	28.40	28.32	28.42
May	303.9	294.3	100.83	106.32	28.15	28.92	28.49	28.61
June	306.5	297.1	101.26	106.71	27.92	29.07	28.66	28.85
July	309.0	299.5	100.95	107.12	27.84	29.25	28.79	29.03
August	311.2	301.2	101.83	106.63	28.06	29.11	28.91	29.18
September	313.2	303.1	102.27	106.97	28.55	29.31	29.06	29.34
October	315.2	305.2	103.36	107.84	28.52	29.54	29.37	29.51
November	317.4	306.9	103.35	107.95	28.52	29.50	29.47	29.67
December	319.9	308.5	104.42	106.89	28.69	29.27	29.58	29.75

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	551.2	551.2	5.99	5.99	165.8	165.9	82.7	82.7
August	556.2	556.2	6.13	6.13	166.1	166.1	82.6	82.6
September	558.5	560.4	5.88	6.14	165.1	165.2	81.9	82.0
October	564.6	563.8	6.15	6.35	165.6	164.6	82.0	81.5
November	567.8	564.2	6.31	6.28	166.4	165.2	82.2	81.6
December	571.9	567.6*	6.47	6.39*	167.0	166.2*	82.4	81.9*
January 1985	576.3	570.6	6.56	6.50	167.0	167.0	82.2	82.1
February	580.7	573.8	6.64	6.62	166.9	167.5	82.0	82.2
March	584.9	577.9	6.71	6.65	167.4	168.0	82.1	82.3
April	588.7	581.5	6.86	6.73	167.8	168.7	82.1	82.5
May	592.5	584.6	6.95	6.81	168.2	169.5	82.2	82.7
June	597.9	589.6	6.95	6.93	168.5	170.0	82.2	82.8
July	602.5	594.3	7.13	6.92	168.9	170.6	82.3	82.9
August	606.4	597.6	7.39	7.11	169.2	171.0	82.3	83.0
September	610.8	601.3	7.42	7.23	169.5	171.4	82.3	83.1
October	614.7	605.0	7.49	7.32	169.8	171.7	82.3	83.1
November	618.8	608.1	7.55	7.40	170.3	172.0	82.4	83.1
December	622.0	611.0	7.62	7.48	170.7	172.0	82.5	82.9

Fore. = November Forecast
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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July	-14.06	-14.06	163.7	163.9	3690	3685	1648	1647	1.8	1.5
August	-9.86	-9.86	164.5	164.0	3703	3698	1650	1648	0.3	-0.3
September	-11.31	-12.65	164.4	165.4	3711	3695	1651	1642	-0.3	-0.3
October	-11.85	-9.18	164.3	164.5	3739	3717	1656	1648	1.6	0.7
November	-12.02	-9.94	164.9	166.6	3760	3744	1658	1656	3.5	0.2
December	-11.09	-10.31*	165.6	167.6*	3789	3777	1663	1667	5.1	1.6
January 1985	-12.06	-10.58	165.9	168.1	3808	3799	1663	1670	5.5	2.7
February	-12.29	-11.35	166.4	168.5	3833	3620	1670	1674	5.9	2.1
March	-12.55	-10.92	167.3	168.9	3859	3848	1677	1680	5.9	2.5
April	-12.85	-11.63	167.7	169.4	3882	3875	1680	1686	4.7	0.7
May	-12.62	-12.15	167.6	169.9	3903	3900	1683	1694	5.2	1.8
June	-12.43	-12.38	167.5	169.6	3925	3932	1686	1702	5.7	3.3
July	-12.55	-11.92	168.2	169.8	3950	3953	1690	1705	6.6	4.9
August	-12.48	-11.97	168.5	170.1	3974	3975	1694	1708	8.3	6.3
September	-12.40	-11.43	168.9	170.3	4000	3996	1698	1710	10.0	6.9
October	-12.56	-10.96	168.8	171.0	4026	4019	1702	1713	11.7	8.5
November	-12.50	-10.85	169.5	170.5	4051	4051	1705	1721	13.0	9.3
December	-12.04	-10.69	170.4	169.9	4077	4073	1710	1723	14.3	9.9

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	311.0	311.0	292.2	292.2	324.0	323.9	223.85	223.80
August	312.4	312.4	291.9	291.9	323.5	323.3	224.39	224.43
September	313.6	313.5	291.3	291.4	322.3	322.3	224.84	225.08
October	314.5	314.8	292.2	290.8	324.0	323.2	225.80	225.60
November	315.8	315.3	293.0	292.2	324.7	323.8	226.81	226.07
December	317.0	315.9*	293.8	292.5	325.3	323.0	227.80	226.58
January 1985	318.0	316.2	294.7	292.8*	326.0	323.5*	228.93	227.48
February	319.1	317.3	295.7	293.6	326.6	324.3	229.51	228.26
March	320.2	318.5	296.6	294.2	327.2	325.0	230.09	229.06
April	321.4	319.6	297.3	294.9	327.0	324.6	231.02	229.83
May	322.6	320.2	298.4	293.7	328.0	325.0	231.90	230.22
June	323.9	321.2	299.6	294.1	328.6	325.9	232.78	230.99
July	325.4	322.5	300.7	294.8	329.4	326.6	233.70	231.80
August	326.9	323.9	301.9	295.5	330.1	327.3	234.62	232.77
September	328.3	325.1	303.1	296.3	330.8	327.9	235.54	233.65
October	329.7	326.4	304.6	297.2	332.4	329.6	236.60	234.62
November	331.1	327.6	305.8	298.4	332.8	330.1	237.54	235.42
December	332.5	329.0	307.1	299.6	333.3	330.7	238.47	236.42

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	220.6	220.5	179.4	179.4	216.9	216.9	238.5	238.3	162.9	163.3
August	221.8	221.8	179.2	179.2	218.3	218.2	239.8	239.7	163.2	163.8
September	222.5	222.3	179.1	179.0	218.6	218.4	241.0	241.0	163.6	164.4
October	223.4	223.0	180.3	178.6	219.3	219.5	242.1	241.5	164.0	163.7
November	224.3	223.2*	181.3	179.1*	219.9	219.3*	243.3	242.2*	164.4	164.1*
December	225.1	223.7	182.2	179.5	220.4	219.3	244.4	243.2	164.9	164.6
January 1985	225.9	224.2	182.7	180.3	220.9	219.1	245.7	244.2	165.2	165.0
February	226.7	225.0	182.9	181.1	221.4	219.6	246.9	245.3	165.5	165.5
March	227.5	225.8	183.0	181.5	221.9	220.2	248.0	246.5	165.8	165.9
April	228.3	226.6	183.3	182.0	222.6	220.5	249.3	247.7	166.4	166.4
May	229.2	227.0	183.1	181.8	223.1	220.3	250.7	248.8	167.0	167.0
June	230.1	227.7	183.7	182.0	223.5	220.8	252.0	250.0	167.6	167.6
July	231.1	228.6	184.0	182.2	224.3	221.4	253.3	251.2	168.0	168.1
August	232.1	229.6	184.4	182.5	225.2	222.0	254.7	252.5	168.5	168.7
September	233.0	230.5	184.8	183.0	226.1	222.6	256.0	253.7	168.9	169.2
October	234.1	231.4	185.2	183.6	226.9	223.2	257.4	255.0	169.5	169.7
November	235.2	232.3	185.7	184.3	227.7	223.8	258.8	256.3	170.1	170.1
December	236.3	233.3	186.2	185.0	228.5	224.5	260.2	257.6	170.8	170.7

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	212.5	212.7	545.6	545.8	2281.4	2281.9	10.52	11.23	10.52	10.52
August	212.7	213.1	546.4	546.7	2290.1	2291.1	10.61	11.64	10.61	10.61
September	215.0	215.0	549.0	548.9	2304.7	2305.8	10.47	11.30	10.47	10.47
October	214.8	214.4	547.5	545.5	2317.8	2317.5	9.47	9.99	9.72	9.87
November	215.5	216.4	550.3	549.4	2330.1	2346.3	9.03	9.43	9.03	8.81
December	216.2	217.4	553.1	554.3	2342.4	2375.5	9.21	8.38	9.21	8.28
January 1985	217.1	220.0*	557.3	558.6*	2361.6	2394.5*	9.48	8.15*	9.48	8.23*
February	218.1	221.5	560.5	562.9	2379.7	2413.0	9.64	8.26	9.64	8.35
March	219.0	222.5	563.6	566.2	2398.8	2429.3	9.80	8.45	9.80	8.61
April	220.7	223.1	566.7	568.7	2413.2	2444.8	9.95	8.42	9.95	8.55
May	222.3	224.0	569.9	571.0	2429.8	2459.0	10.03	8.63	10.03	8.80
June	223.9	224.9	573.1	573.9	2446.3	2479.2	9.90	8.93	9.90	9.03
July	224.9	225.8	577.0	576.9	2466.1	2493.4	9.87	9.10	9.87	9.06
August	225.8	227.1	581.1	579.5	2486.0	2506.3	9.73	8.92	9.73	9.01
September	227.0	228.5	585.1	582.4	2506.1	2522.7	9.59	8.77	9.59	8.91
October	228.0	229.3	586.8	585.3	2518.3	2537.2	9.32	8.95	9.32	9.04
November	229.1	230.7	587.9	588.5	2530.4	2557.4	9.08	8.73	9.08	8.87
December	230.2	232.1	589.0	592.0	2542.6	2574.6	8.84	8.65	8.84	8.70

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	13.44	13.44	10.42	10.42	11.19	11.19	11.56	11.56	13.00	13.00
August	12.87	12.87	10.06	9.99	11.18	11.18	11.47	11.47	13.00	13.00
September	12.66	12.66	10.03	10.10	11.04	11.04	11.29	11.29	13.00	13.00
October	12.53	12.63	10.22	10.25	9.82	10.12	10.15	10.38	12.59	12.58
November	12.35	12.29	10.16	10.17	9.75	9.03	10.07	9.18	12.00	11.77
December	12.17	12.13	10.10	9.95	9.83	8.44	10.12	8.60	11.83	11.06
January 1985	12.46	12.15*	10.37	9.63*	10.04	8.06*	10.27	8.27*	11.75	10.59*
February	12.55	12.27	10.48	9.56	10.20	8.31	10.43	8.54	11.50	10.50
March	12.64	12.23	10.52	9.48	10.43	8.52	10.65	8.73	11.50	10.50
April	12.79	12.11	10.62	9.33	10.65	8.55	10.88	8.78	11.56	10.50
May	12.92	12.28	10.79	9.49	10.78	8.72	10.95	8.94	12.12	10.72
June	12.87	12.47	10.64	9.66	10.62	9.03	10.86	9.26	12.50	10.93
July	12.64	12.56	10.39	9.77	10.53	9.15	10.73	9.39	12.50	11.00
August	12.56	12.37	10.30	9.59	10.39	8.93	10.58	9.21	12.50	11.00
September	12.48	12.10	10.18	9.32	10.22	8.68	10.46	8.94	12.50	11.00
October	12.37	12.11	9.98	9.33	10.01	8.79	10.27	9.02	12.33	11.00
November	12.31	11.91	9.92	9.21	9.82	8.65	10.06	8.89	12.00	11.00
December	12.25	11.78	9.80	9.14	9.99	8.63	9.85	8.85	12.00	11.00

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

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MONTHLY PROJECTIONS
JANUARY 1985

Dr. Donald Ratajczak, Director
For Release: January 30, 1985

REDUCED INFLATION MEANS MORE REAL GROWTH

A strong dollar continues to exert downward pressures upon commodity prices in the U. S. Although the PPI increased 1.8% at the finished goods level in 1984, (up from only a 0.6% gain in 1983) prices at all stages of processing rose more slowly than in the previous year. By the end of 1984, prices of crude materials once again were declining. With price moderation also expected in the meat component, inflation should remain mild through the first half of 1985. If the dollar weakens late in the year and increased livestock profitability leads to herd rebuilding by fall, inflation could accelerate at the end of 1985. Nevertheless, continued inflationary moderation has caused such a dramatic slowing in wage gains that any inflationary surge at that time still will be modest. The GNP deflator is projected to increase 3.3% in 1985, a smaller gain than the 3.7% increase for 1984. Consumer prices also are expected to grow at the smallest rate for the twelve months of 1985 since the early 1970s.

These moderate rates of inflation will sharply increase consumer support for the economy through 1985. One consumer problem area is the sharp increase in debt outstanding, which now exceeds 17% of disposable income. By the latter part of 1985, this debt burden probably will slow activity for consumer durables. Nevertheless, consumer spending after adjustment for inflation is expected to increase a normal 4% during the year.

For the year as a whole, housing may not grow more rapidly than in 1984. However, a significant gap between starts and permits for multi-family unit increases the likelihood that a surge in starts will develop during the spring and summer months. A flurry of housing starts in the vicinity of 1.8 million units in the second and third quarters, therefore, should be anticipated.

Fixed investment will be growing rapidly through most of 1985, although a substantial portion of capital goods purchases appear to be coming from foreign suppliers. The relationship between spending on producers' durables and orders for nondefense capital goods has been significantly reduced. However, a surge for nonresidential construction activity, probably to beat any tax code changes, should generate nearly 7% real growth in capital spending during 1985.

The inventory correction that developed early in the fall appears to be over. To a large extent, inventory investments will be a minor image of the pattern that developed in 1984. For the entire year, however, the inventory component will contribute little to GNP. Also, inventories may once again become excessive late in 1985.

Net exports are expected to fall throughout 1985 after a temporary improvement during the fourth quarter. However, the degree of deterioration in the trade accounts should be only half as dramatic as in the previous year. This will offset the smaller support for GNP generated by inventory changes than in the previous year. By the end of 1985, net exports are expected to stabilize in inflation-adjusted terms, although an anticipated decline in the dollar's value late in the year may continue to generate increasing current account deficits until early 1986.

State and local government spending probably will remain relatively sluggish despite improving budgetary conditions in those governments. Basically, the need for educational personnel and facilities no longer is growing significantly while demographic changes have eased pressures for increasing employment of safety personnel. Construction is expected to grow moderately, although reduced support for transportation systems from the federal government will moderate the rate of expansion in this area. With continuing defense spending, federal expenditures will continue to follow the 4% real rate of growth they experienced in recent years. When all these factors are combined, real economic activity could slightly exceed the 4.0% projections used by the administration. However, economic activity is expected to show a weakening trend late in 1985 and the prospects of recession sometime in 1986 definitely cannot be ruled out.

Quarterly Profile of GNP

	1984-3	1984-4	1985-1	1985-2	1985-3	1985-4
Real:	1.6	3.9	5.3	4.8	4.7	1.9
Price:	3.9	2.4	3.2	3.0	3.9	4.6
Nominal:	5.6	6.4	8.7	7.9	8.8	6.6

Monthly Statistical Highlights for January 1985

Payroll employment +238,000; index of hours worked +0.3%; household employment +228,000; civilian unemployment rate 7.2%; personal income +0.9%; savings rate 5.8%; personal consumption +0.8%; retail sales +1.1%; auto sales 10.7 million; housing starts -0.7%; housing permits -5.2%; construction expenditures -0.9%; business inventories +0.5%; orders for durable goods +0.1%; orders for nondefense capital goods +4.9%; industrial production +0.6%; CPI +0.1%; PPI -0.2%; consumption deflator +0.2%; leading indicators +0.7%; real GNP +3.6%; M1 +7.4%; M2 +9.3%.

Monthly Statistical Highlights for February 1985

Payroll employment +198,000; index of hours worked +0.2%; household employment +260,000; civilian unemployment rate 7.1%; personal income +0.5%; savings rate 5.7%; personal consumption +0.6%; retail sales +0.4%; auto sales 10.7 million; housing starts +2.5%; housing permits -1.6%; construction expenditures +1.1%; business inventories +0.6%; orders for durable goods +1.2%; orders for nondefense capital goods +1.3%; industrial production +0.4%; CPI +0.3%; PPI +0.1%; consumption deflator +0.3%; leading indicator +0.4%; real GNP +2.9%; M1 +12.0%; M2 +11.4%.

COMMENTARY

Employment - Despite a 0.1 percentage point increase in unemployment rates during December, a large discrepancy still exists between the insured unemployment rate and the household estimate of unemployment. In the latest week, the insured unemployment rate stood at 2.9%, a rate that could be translated into nearly a 7.5% household estimate of unemployment. However, labor force growth for teenagers and adult women already returned to more normal patterns following unusually sluggish growth earlier in 1984. Certainly, the teenage participation rate remains surprisingly low but the surveys show no tendencies for these rates to significantly improve in recent months. Strong employment growth persists in services and transportation, but weakness in retail and construction could cause a slight increase in the unemployment rate. Certainly, the workweek should be slightly shorter than in December, when manufacturing hours increased by 0.2 hours.

Personal Income & Outlays - It is becoming increasingly clear that the retail sales estimates, especially in the automobile component, are providing little guidance of consumer behavior. The outlays estimate of the personal income report clearly showed a significant surge in automobile sales that unit sales implied for the month of December. It is possible that retail sales will show a significant gain in auto sales in January, despite some sluggish unit sales activity in mid-month. However, the more reliable outlays almost certainly will show a modest decrease in durable expenditures. On the other hand, the services component showed minimal growth in December as a result of an exceptionally mild weather month generating lower than anticipated utility purchases. In January, an unusually cold month will significantly accelerate utility purchases. In addition, a significant acceleration in stock market volume will sharply increase the financial services component. Therefore, personal consumption should grow sharply in January.

Normally, personal income grows minimally in January as Social Security tax changes are added in that month. While Social Security taxes continue to grow rapidly, and will be restraining personal income, a change in the disbursement schedule for railroad retirees depressed December personal income by 0.3 percentage points and will add a like percentage gain to personal income in January. Moreover, wage gains should be strong, leading to a surprisingly strong gain for personal income during the month. Aiding disposable income will be the factoring of reduced tax liabilities as a result of indexation provision on 1985 incomes. Thus, this sharp acceleration in consumer spending at the service level will not significantly reduce personal savings.

Construction - If favorable weather aided housing activity and construction outlays in December, unfavorable weather almost certainly will stall activity in January. However, declining mortgage rates probably will preserve reasonable strength in single-family starts. Tax reform may be sufficiently delayed to encourage builders to utilize their rapidly accumulating backlog of multi-family permits. As a result, housing starts are expected to accelerate sharply in the spring and early summer months before the build-out of multi-family units begins to subside late in the year.

Much sharper gains in nonresidential construction have been projected following a weather-induced decline in January because of the renewed surge in orders for such construction products. This acceleration of orders also may be a build-out prior to possible tax changes. While construction undoubtedly will be supporting economic expansion in 1985, our projections show strength stalling late in the year and actually reversing early in 1986.

This stronger pattern for construction has led to some upward revision in the implicit construction deflator. This construction deflator is expected to increase by 4.3% during the twelve months of 1985.

Business Activity - Orders for nondefense capital goods once again fell sharply below shipments in December. This shrinkage in backlog has not slowed the growth of shipments. Apparently, the industry is behaving as if the orders are only temporarily sluggish. Our analysis suggests that orders should rebound in 1985, but orders should be tapering off by the end of the year. Under these conditions, shipments are anticipated to expand by 8.0%, of which less than 2.5% will be the result of price changes. Defense shipments are expected to grow sharply, both because of previous contracting and also because no significant reduction in the growth of defense outlays is anticipated.

Both manufacturing and business inventories are expected to grow more modestly in 1985 than in 1984. However, substantial slowing in inventory accumulation during past fourth quarter is at an end.

Industrial production was weaker than anticipated by the hours worked in December, but the weakness resided in a 0.9% decline in contribution by utilities. A shift in the weather during January will cause utilities to generate increasing support for industrial production, even if hours worked grow at a reduced rate. After January, however, slower growth in industrial production, especially for consumer goods in the first half of 1985, followed by industrial materials later in the year, is anticipated. By the end of the year, business equipment also may be showing only modest gains as measured by industrial production.

Prices - Moderation in meat prices and declining oil prices should combine to generate minimal changes in commodity inflation through the first half of 1985. Our projections show that finished goods may experience only a 0.3% price increase during the first half of 1985. Some acceleration in commodity inflation then is anticipated in the latter part of the year. Of course, the dollar is expected to remain relatively strong until late in the year as well. This moderation in commodity inflation will be reflected in the CPI, which may expand only 3.5% in the twelve months of 1985, down from the 4.0% in 1984.

Obviously, such moderation in commodity inflation will be reflected in the consumer durable and nondurable price deflators. In addition, slower growth in the CPI than originally anticipated should restrain wage gains and moderate inflationary pressures for consumer services. Consumer services should experience price increases of only 5.2% in 1985. Consumer nondurables should show gains of 1.8%, virtually all of which will occur in the second half of the year. More aggressive pricing for automobiles will be partially offset by significant price sluggishness for other consumer durables. As a result, prices for all consumer durables should expand a moderate 2.7% during the year.

Continuing moderation in consumer prices will lead to even lower gains for the GNP deflator during 1985 than in 1984.

Miscellaneous - Although the leading indicators should only show a modest rate of increase in December following a dramatic surge in November, improving orders for capital goods and consumer goods, a strong stock market, and surprisingly strong gains in inflation-adjusted monetary measures will continue to generate strong increases in the indicators through the early months of 1985. Our analysis suggests that orders will grow at a reduced rate, building permits will begin declining, and the stock market may turn in a weak performance during the latter part of 1985. This explains why the indicators reach their annual high in the summer quarter.

Financial Markets

Short-term interest rates have stabilized in January. No further significant declines are anticipated. Money demand is beginning to intensify, leading to projections of modest upward trends in short-term rates in the next few months. However, rates for commercial paper continue to remain below the federal funds rate. This suggests that demand conditions only grudgingly are improving. For that reason, the upward trend in short-term interest rates is not expected to be vigorous.

Surprisingly, only the municipals market initially rallied because of favorable activity in the short-term market. Indeed, municipal rates were artificially distorted upward by a surprising supply during the fall. Their ratio relative to seasoned AAA's has once again declined to the .78 range. Little further relative improvement now is expected in the municipals market. However, other long-term interest rates fell sharply once inflationary conditions appeared to have improved. While long-term interest rates probably will rebound slightly when short-term interest rates begin trending upward, no significant slippage in bond prices is anticipated in 1985. Indeed, long-term interest rates might be lower at the end of the year than they currently are, although our projections do not yet show that eventuality.

Equity Markets - Equity markets currently are being favored by two developments. First, the decline in long-term interest rates should raise the market value of a prevailing earnings stream by more than 5%. Second, stronger economic growth early in 1985 than previously anticipated should lead to more favorable productivity gains than originally projected. This, in turn, should hold down unit labor costs. As a result, corporate profitability should expand significantly. Operating profits less taxes will increase about 8% in 1985. With a 5-7% improvement in long-term interest rates and with only a minor offset from the increased supply of equity ownership, equity values should increase more than 10%. Virtually all this increase should occur early in 1985. The New York composite index might reach 110 during the spring. Weakness in the stock market then is expected in the latter part of 1985.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	94350	94350	112.6	112.6	105395	105377	7.5	7.5	160.8	160.8
August	94532	94523	112.6	112.7	105969	105148	7.5	7.5	160.6	160.6
September	94671	94807	113.2	113.4	105239	105394	7.4	7.4	161.7	161.6
October	95195	95154	113.3	113.2	105655	105649	7.4	7.3	162.0	161.3
November	95317	95489	113.5	114.0	105820	105932	7.4	7.1	162.4	162.0
December	95478	95798	113.8	114.5	106012	106273	7.5	7.2	162.8	163.0
January 1985	95622	96036*	113.9	114.8*	106307	106501*	7.4	7.2*	163.5	163.3*
February	95811	96234	114.1	115.0	106629	106761	7.3	7.1	164.2	163.8
March	96015	96410	114.2	115.2	106948	106988	7.2	7.0	164.9	164.4
April	96193	96669	114.4	115.5	107126	107293	7.2	6.8	165.5	164.9
May	96328	96861	114.7	115.7	107378	107544	7.1	6.8	166.0	165.5
June	96463	97120	115.0	116.0	107622	107834	7.1	6.7	167.3	166.1
July	96605	97303	115.1	116.2	107765	108009	7.1	6.7	168.1	166.8
August	96779	97479	115.2	116.4	107900	108290	7.1	6.6	168.8	167.5
September	96953	97579	115.3	116.5	108035	108479	7.1	6.6	169.4	168.1
October	97065	97763	115.4	116.7	108192	108765	7.0	6.5	169.4	168.8
November	97154	97863	115.6	116.8	108326	108926	7.1	6.5	170.1	169.4
December	97242	97972	115.8	116.9	108455	109071	7.1	6.5	170.9	170.1

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	3.027	3.028	1.812	1.812	158.5	158.7	2.587	2.589	2.428	2.430
August	3.045	3.046	1.816	1.817	174.2	174.3	2.603	2.605	2.429	2.431
September	3.071	3.068	1.828	1.829	161.5	159.2	2.625	2.625	2.463	2.466
October	3.087	3.082	1.835	1.831	160.9	178.9	2.636	2.636	2.475	2.458
November	3.106	3.102	1.848	1.845	147.9	169.2	2.649	2.651	2.501	2.482
December	3.125	3.118	1.858	1.863	143.9	150.5	2.662	2.661	2.518	2.511
January 1985	3.134	3.146*	1.870	1.875*	135.1	156.3*	2.671	2.687*	2.536	2.531*
February	3.148	3.163	1.879	1.884	131.4	154.8	2.685	2.701	2.554	2.546
March	3.163	3.181	1.888	1.894	134.3	152.8	2.701	2.715	2.567	2.562
April	3.181	3.200	1.898	1.905	127.1	159.1	2.715	2.731	2.588	2.572
May	3.201	3.217	1.909	1.915	122.4	156.2	2.729	2.744	2.607	2.588
June	3.220	3.237	1.921	1.927	128.7	153.7	2.744	2.759	2.615	2.605
July	3.241	3.256	1.931	1.938	129.1	150.5	2.760	2.773	2.631	2.623
August	3.261	3.276	1.942	1.949	130.0	153.4	2.776	2.788	2.646	2.635
September	3.280	3.293	1.952	1.958	129.0	154.6	2.793	2.804	2.664	2.649
October	3.299	3.314	1.963	1.970	126.5	159.0	2.810	2.822	2.684	2.663
November	3.318	3.331	1.973	1.979	119.6	153.9	2.821	2.835	2.701	2.681
December	3.339	3.349	1.984	1.989	117.8	151.7	2.833	2.849	2.715	2.697

Fore. = November Forecast
C.E. = Current Expectations
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CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	2348.7	2350.5	320.2	320.2	859.2	859.2	1169.2	1171.1	1064.8	1066.1
August	2347.8	2350.1	313.6	313.2	856.1	853.5	1181.8	1183.4	1058.5	1059.5
September	2381.3	2383.7	318.1	318.2	874.5	871.6	1188.7	1193.8	1070.3	1072.2
October	2391.7	2374.2	319.5	318.1	876.9	862.6	1195.3	1193.5	1070.6	1065.1
November	2416.5	2396.9	325.8	322.8	884.7	869.1	1206.0	1204.9	1077.4	1074.7
December	2432.3	2424.9	327.6	333.4	888.0	884.5	1216.7	1207.1	1080.5	1087.8*
January 1985	2449.9	2443.7*	330.5	332.8*	893.5	890.4*	1225.9	1220.5*	1084.5	1094.3
February	2466.4	2458.2	332.4	334.0	898.8	895.6	1235.2	1228.6	1088.0	1098.0
March	2478.5	2473.1	330.7	337.0	903.2	899.4	1244.6	1236.7	1089.5	1101.2
April	2498.7	2481.8	332.8	337.1	910.8	900.5	1255.1	1244.2	1094.5	1103.5
May	2516.4	2496.8	335.3	338.2	915.3	905.3	1265.8	1253.3	1097.9	1106.6
June	2524.2	2513.3	334.5	340.3	914.7	910.6	1275.0	1262.4	1097.0	1110.5
July	2538.8	2529.4	335.0	340.6	919.5	915.2	1284.3	1273.6	1098.6	1114.3
August	2553.1	2540.4	333.7	339.3	925.8	919.4	1293.6	1281.7	1100.0	1115.2
September	2570.1	2554.1	334.5	338.3	934.2	925.1	1301.4	1290.7	1103.0	1117.0
October	2588.6	2566.7	336.3	338.0	939.7	928.8	1312.6	1299.9	1105.8	1118.5
November	2605.6	2583.7	337.5	340.7	944.3	933.7	1323.8	1309.3	1107.8	1121.6
December	2618.5	2598.9	337.5	343.2	945.9	936.9	1335.1	1318.8	1108.1	1124.0

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	107.44	107.44	15.44	15.44	10.6	10.6	69.99	69.99	22.02	22.02
August	106.81	106.61	15.58	15.60	9.9	10.0	70.15	69.83	21.08	21.08
September	108.52	108.24	15.52	15.77	10.2	10.2	71.64	71.19	21.36	21.28
October	108.88	108.73	15.57	15.89	10.0	9.7	71.84	70.32	21.47	22.52
November	110.25	110.90	15.44	16.29	10.4	9.8	72.48	71.61	22.33	23.01
December	111.00	110.82	15.40	16.47	10.8	11.0	72.75	71.88	22.85	22.47
January 1985	111.72	112.02*	15.46	16.38*	10.8	10.7*	73.20	72.35*	23.06	23.29*
February	112.37	112.44	15.45	16.44	10.8	10.7	73.63	72.63	23.29	23.37
March	112.33	113.11	15.48	16.61	10.6	10.8	73.89	72.94	22.96	23.56
April	113.26	113.21	15.43	16.67	10.8	10.7	74.41	73.03	23.42	23.51
May	113.95	113.73	15.52	16.77	10.9	10.8	74.78	73.42	23.65	23.54
June	113.61	114.41	15.50	16.84	10.7	10.9	74.83	73.85	23.28	23.72
July	114.16	114.82	15.57	16.85	10.7	10.8	75.22	74.22	23.36	23.75
August	114.43	115.00	15.91	16.92	10.4	10.6	75.74	74.56	22.78	23.52
September	115.21	115.35	15.89	16.95	10.4	10.5	76.43	75.03	22.89	23.37
October	115.87	115.62	15.89	17.02	10.5	10.4	76.88	75.33	23.10	23.27
November	116.39	116.55	15.97	17.15	10.5	10.5	77.26	75.94	23.16	23.46
December	116.41	117.11	16.14	17.22	10.3	10.5	77.49	76.20	22.78	23.69

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CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	1.754	1.754	0.990	0.990	1.565	1.565	311.2	314.2	191.0	192.4
August	1.539	1.539	0.932	0.932	1.506	1.506	311.6	318.0	190.9	194.2
September	1.676	1.683	1.009	1.016	1.424	1.440	312.5	318.7	191.0	193.8
October	1.596	1.535	0.968	0.964	1.397	1.418	313.9	318.8	191.4	194.7
November	1.582	1.554	0.985	1.009	1.406	1.591	314.9	322.2	191.5	196.4
December	1.562	1.587	0.984	1.064	1.411	1.588	316.0	326.4	191.6	198.3
January 1985	1.531	1.576*	0.963	1.040*	1.385	1.506*	315.0	323.3	190.7	195.8
February	1.542	1.616	0.951	1.063	1.371	1.482	313.4	327.0	189.4	197.5
March	1.523	1.659	0.943	1.091	1.352	1.508	311.0	329.9	187.6	198.5
April	1.548	1.759	0.968	1.116	1.379	1.546	313.8	332.8	188.6	199.5
May	1.569	1.815	0.997	1.143	1.401	1.582	317.0	337.8	189.8	201.8
June	1.599	1.897	1.017	1.186	1.443	1.623	320.0	342.1	190.9	203.6
July	1.637	1.927	1.043	1.203	1.502	1.667	323.9	347.2	192.8	205.8
August	1.678	1.838	1.056	1.171	1.509	1.625	327.3	350.1	194.2	206.2
September	1.734	1.798	1.069	1.154	1.543	1.611	329.7	350.4	195.2	206.4
October	1.762	1.800	1.118	1.172	1.558	1.622	333.9	350.8	197.0	205.9
November	1.801	1.760	1.173	1.143	1.579	1.598	336.8	350.9	198.0	205.1
December	1.846	1.726	1.227	1.118	1.608	1.573	339.7	352.3	198.9	205.2

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	119.7	120.4	56.2	56.0	135.3	137.8
August	120.0	122.3	56.2	56.8	135.4	138.9
September	121.3	123.8	56.7	57.8	134.5	137.1
October	122.6	126.8	57.3	56.9	134.0	135.1
November	123.9	130.7	57.8	56.9	133.2	134.6
December	125.1	132.3*	58.4	58.0*	132.5	136.0*
January 1985	125.6	131.6	58.8	57.4	130.6	134.3
February	125.9	133.2	59.0	57.9	128.5	135.9
March	126.2	134.9	58.4	58.4	126.4	136.6
April	127.0	136.3	59.0	58.9	127.8	137.6
May	127.9	138.5	59.8	59.4	129.3	139.9
June	128.5	139.7	60.6	60.0	130.9	142.4
July	129.6	141.5	60.9	60.3	133.4	145.4
August	130.0	142.3	60.8	60.8	136.5	147.0
September	128.8	142.2	60.8	61.1	140.1	147.1
October	129.7	143.5	61.5	61.3	142.7	146.0
November	130.9	144.3	61.7	61.5	144.2	145.1
December	132.1	145.0	61.8	61.9	145.8	145.4

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	280.0	280.0	101.70	101.70	27.65	27.65	25.86	25.86
August	283.5	283.5	102.02	102.02	26.50	26.50	26.05	26.05
September	285.2	285.2	97.61	98.68	27.10	27.84	27.46	27.74
October	287.8	286.4	95.63	96.07	26.25	25.38	27.05	26.54
November	290.3	285.5	97.26	104.04	27.03	27.13	27.23	27.29
December	292.6	286.7*	98.41	101.89	27.49	25.75	27.41	27.76
January 1985	294.8	288.3	99.53	103.01*	27.63	27.01*	27.86	27.93*
February	296.9	289.9	99.96	104.26	27.99	27.36	28.01	28.05
March	299.5	291.3	98.27	106.64	28.05	28.21	28.17	28.17
April	301.4	293.2	100.05	105.87	28.07	28.16	28.32	28.21
May	303.9	295.0	100.83	106.92	28.15	28.56	28.49	28.43
June	306.5	297.6	101.26	107.13	27.92	28.69	28.66	28.62
July	309.0	300.4	100.95	108.15	27.84	29.03	28.79	28.89
August	311.2	301.8	101.83	108.22	28.06	29.17	28.91	29.05
September	313.2	303.7	102.27	108.67	28.55	29.31	29.06	29.31
October	315.2	305.8	103.36	107.87	28.52	29.15	29.37	29.56
November	317.4	307.5	103.35	108.25	28.52	29.20	29.47	29.87
December	319.9	309.4	104.42	108.62	28.69	29.28	29.58	29.98

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	551.2	551.2	5.99	5.99	165.8	165.9	82.7	82.7
August	556.2	556.2	6.13	6.13	166.1	166.0	82.6	82.6
September	558.5	560.4	5.88	6.14	165.1	165.0	81.9	81.9
October	564.6	563.8	6.15	6.35	165.6	164.5	82.0	81.5
November	567.8	564.2	6.31	6.28	166.4	165.2	82.2	81.6
December	571.9	567.0*	6.47	6.43	167.0	166.2	82.4	81.9
January 1985	576.3	569.9	6.56	6.56*	167.0	167.2*	82.2	82.2*
February	580.7	573.3	6.64	6.72	166.9	167.9	82.0	82.4
March	584.9	576.4	6.71	6.85	167.4	168.3	82.1	82.5
April	588.7	580.0	6.86	6.83	167.8	169.0	82.1	82.7
May	592.5	583.9	6.95	6.98	168.2	169.9	82.2	82.9
June	597.9	589.2	6.95	7.06	168.5	170.8	82.2	83.2
July	602.5	594.7	7.13	7.15	168.9	171.3	82.3	83.3
August	606.4	597.9	7.39	7.25	169.2	171.6	82.3	83.3
September	610.8	602.0	7.42	7.33	169.5	172.0	82.3	83.4
October	614.7	606.1	7.49	7.46	169.8	172.3	82.3	83.4
November	618.8	609.8	7.55	7.53	170.3	172.5	82.4	83.3
December	622.0	613.6	7.62	7.64	170.7	172.6	82.5	83.1

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July	-14.06	-14.06	163.7	163.9	3690	3685	1648	1647	1.8	1.5
August	-9.86	-9.86	164.5	164.0	3703	3698	1650	1648	0.3	-0.3
September	-11.31	-12.65	164.4	165.4	3711	3695	1651	1642	-0.3	-0.3
October	-11.85	-9.18	164.3	164.5	3739	3721	1656	1649	1.6	1.5
November	-12.02	-9.94	164.9	166.6	3760	3753	1658	1661	3.5	1.0
December	-11.09	-10.31*	165.6	167.1*	3789	3784	1663	1673	5.1	3.2
January 1985	-12.06	-10.65	165.9	168.3	3808	3810	1663	1678	5.5	4.6
February	-12.29	-11.73	166.4	169.0	3833	3830	1670	1682	5.9	4.0
March	-12.55	-11.21	167.3	169.6	3859	3854	1677	1688	5.9	1.7
April	-12.85	-11.84	167.7	170.2	3882	3877	1680	1695	4.7	0.2
May	-12.62	-12.26	167.6	171.1	3903	3904	1683	1702	5.2	3.7
June	-12.43	-12.43	167.5	171.3	3925	3937	1686	1711	5.7	5.3
July	-12.55	-12.21	168.2	172.0	3950	3966	1690	1719	6.6	5.6
August	-12.48	-11.85	168.5	171.8	3974	3989	1694	1722	8.3	7.1
September	-12.40	-11.62	168.9	172.1	4000	4011	1698	1726	10.0	7.8
October	-12.56	-11.27	168.8	171.7	4026	4028	1702	1727	11.7	8.9
November	-12.50	-11.43	169.5	171.8	4051	4053	1705	1730	13.0	10.2
December	-12.04	-10.87	170.4	171.5	4077	4080	1710	1735	14.3	10.0

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	311.0	311.0	292.2	291.9	324.0	323.9	223.85	223.80
August	312.4	312.4	291.9	291.9	323.5	323.3	224.39	224.43
September	313.6	313.5	291.3	291.4	322.3	322.3	224.84	225.08
October	314.5	314.6	292.2	290.9	324.0	323.2	225.80	225.60
November	315.8	315.3	293.0	292.4	324.7	323.8	226.81	225.95
December	317.0	315.8	293.8	292.7	325.3	323.0	227.80	226.16
January 1985	318.0	316.2*	294.7	292.1*	326.0	322.3*	228.93	227.11
February	319.1	317.0	295.7	292.5	326.6	322.8	229.51	227.65
March	320.2	317.9	296.6	293.1	327.2	323.4	230.09	228.37
April	321.4	318.3	297.3	292.5	327.0	323.0	231.02	228.73
May	322.6	319.3	298.4	292.9	328.0	323.7	231.90	229.41
June	323.9	320.3	299.6	293.5	328.6	324.2	232.78	230.09
July	325.4	321.3	300.7	294.1	329.4	324.8	233.70	230.75
August	326.9	322.4	301.9	294.7	330.1	325.2	234.62	231.64
September	328.3	323.6	303.1	295.2	330.8	324.9	235.54	232.41
October	329.7	324.7	304.6	295.7	332.4	326.6	236.60	233.27
November	331.1	325.9	305.8	296.5	332.8	327.2	237.54	234.23
December	332.5	327.0	307.1	297.1	333.3	327.8	238.47	235.11

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	220.6	220.5	179.4	179.4	216.9	216.9	238.5	238.3	162.9	163.3
August	221.8	221.8	179.2	179.2	218.3	218.2	239.8	239.7	163.2	163.8
September	222.5	222.3	179.1	179.0	218.6	218.4	241.0	241.0	163.6	164.4
October	223.4	222.9	180.3	178.4	219.3	219.6	242.1	241.4	164.0	163.7
November	224.3	223.0*	181.3	178.4	219.9	219.2	243.3	242.3	164.4	164.1
December	225.1	222.9	182.2	178.4	220.4	219.2	244.4	242.7	164.9	164.6
January 1985	225.9	223.3	182.7	178.6	220.9	218.9	245.7	243.5	165.2	165.1
February	226.7	223.9	182.9	179.2	221.4	219.0	246.9	244.4	165.5	165.6
March	227.5	224.6	183.0	179.9	221.9	219.4	248.0	245.4	165.8	166.2
April	228.3	224.9	183.3	179.6	222.6	219.2	249.3	246.4	166.4	166.8
May	229.2	225.6	183.1	180.1	223.1	219.5	250.7	247.5	167.0	167.4
June	230.1	226.3	183.7	180.6	223.5	219.9	252.0	248.5	167.6	168.0
July	231.1	227.0	184.0	181.0	224.3	220.3	253.3	249.4	168.0	168.7
August	232.1	227.8	184.4	181.3	225.2	220.7	254.7	250.6	168.5	169.3
September	233.0	228.7	184.8	181.7	226.1	221.3	256.0	251.7	168.9	169.8
October	234.1	229.5	185.2	182.2	226.9	221.8	257.4	252.8	169.5	170.4
November	235.2	230.4	185.7	182.7	227.7	222.5	258.8	254.0	170.1	171.1
December	236.3	231.2	186.2	183.3	228.5	223.2	260.2	255.1	170.8	171.1

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	212.5	212.7	545.6	545.8	2281.4	2281.9	10.52	11.23	10.52	10.52
August	212.7	213.1	546.4	546.6	2290.1	2291.0	10.61	11.64	10.61	10.61
September	215.0	215.0	549.0	548.9	2304.7	2305.8	10.47	11.30	10.47	10.47
October	214.8	214.4	547.5	545.5	2317.8	2317.4	9.47	9.99	9.72	9.87
November	215.5	216.4	550.3	549.4	2330.1	2346.5	9.03	9.43	9.03	8.81
December	216.2	217.4	553.1	554.3	2342.4	2375.9	9.21	8.38	9.21	8.28
January 1985	217.1	219.0*	557.3	557.6*	2361.6	2393.6*	9.48	8.36*	9.48	8.03*
February	218.1	220.3	560.5	562.9	2379.7	2415.2	9.64	8.07	9.64	7.84
March	219.0	221.9	563.6	566.5	2398.8	2433.5	9.80	8.18	9.80	7.72
April	220.7	223.0	566.7	569.3	2413.2	2450.8	9.95	8.27	9.95	7.59
May	222.3	224.0	569.9	572.3	2429.8	2466.5	10.03	8.42	10.03	7.91
June	223.9	225.1	573.1	575.1	2446.3	2485.3	9.90	8.65	9.90	8.29
July	224.9	225.9	577.0	577.6	2466.1	2502.7	9.87	8.77	9.87	8.36
August	225.8	226.8	581.1	579.9	2486.0	2519.3	9.73	8.65	9.73	8.17
September	227.0	228.0	585.1	582.5	2506.1	2537.2	9.59	8.82	9.59	8.46
October	228.0	229.1	586.8	584.9	2518.3	2554.0	9.32	8.70	9.32	8.16
November	229.1	230.4	587.9	588.2	2530.4	2571.8	9.08	8.82	9.08	8.29
December	230.2	231.7	589.0	592.0	2542.6	2589.8	8.84	8.92	8.84	8.38

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1984	13.44	13.44	10.42	10.42	11.19	11.19	11.56	11.56	13.00	13.00
August	12.87	12.87	10.06	9.99	11.18	11.18	11.47	11.47	13.00	13.00
September	12.66	12.66	10.03	10.10	11.04	11.04	11.29	11.29	13.00	13.00
October	12.53	12.63	10.22	10.25	9.82	10.12	10.15	10.38	12.59	12.58
November	12.35	12.29	10.16	10.17	9.75	9.03	10.07	9.18	12.00	11.77
December	12.17	12.13	10.10	9.95	9.83	8.44	10.12	8.60	11.83	11.06
January 1985	12.46	12.09*	10.37	9.45*	10.04	8.02*	10.27	8.16*	11.75	10.62*
February	12.55	11.74	10.48	9.16	10.20	7.93	10.43	8.18	11.50	10.28
March	12.64	11.69	10.52	9.12	10.43	7.86	10.65	8.08	11.50	10.25
April	12.79	11.86	10.62	9.25	10.65	7.89	10.88	8.13	11.56	10.25
May	12.92	11.93	10.79	9.32	10.78	8.08	10.95	8.36	12.12	10.25
June	12.87	12.07	10.64	9.48	10.62	8.43	10.86	8.72	12.50	10.43
July	12.64	12.31	10.39	9.62	10.53	8.59	10.73	8.81	12.50	10.50
August	12.56	12.13	10.30	9.49	10.39	8.62	10.58	8.85	12.50	10.50
September	12.48	12.37	10.18	9.69	10.22	8.73	10.46	8.99	12.50	10.82
October	12.37	12.11	9.98	9.53	10.01	8.65	10.27	8.91	12.33	11.00
November	12.31	12.19	9.92	9.60	9.82	8.76	10.06	9.03	12.00	11.00
December	12.25	12.26	9.80	9.72	9.99	9.03	9.85	9.32	12.00	11.21

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

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MONTHLY PROJECTIONS
FEBRUARY 1985

Dr. Donald Ratajczak, Director
For Release: March 8, 1985

CONSTRUCTION SURGE AIDES STRONG FIRST HALF

According to the conventional wisdom, no meaningful tax reform is expected to impact upon business transactions in 1985. As a result, those builders who had reduced their starts for multi-family units during the fall after the Treasury released its tax reform proposals, have now begun to work through that permit backlog. A surge in non-residential private construction activity also became apparent in January. To be sure, the F. W. Dodge listing of orders does not currently justify such a rapid rate of growth in non-residential private construction. However, the same factors that are encouraging builders of multi-family units to complete their projects in 1985 also are influencing construction of office buildings and warehouses. Also, Congress finally has released highway funds that had been accumulating because of problems with allocating the results of the 5¢ gasoline tax that was enacted last year. Therefore, a surge of public construction should combine with strong gains in private construction during the first half of 1985.

Such a surge of activity should begin to show some stress in terms of wages and prices. At the present time, wages in the construction industry remain well-behaved. However, the construction cost index is beginning to move significantly higher. Indeed, our estimates show that the construction component will probably be adding more to inflation in 1985 than originally expected.

Adding to the surge in activity generated by construction is continuing support for the economy by the consumer. The consumption deflator actually declined in December. This led to a surprisingly strong gain in consumer spending during December, even as unusually mild weather led to a smaller rate of consumption of services than normally would prevail. The rebound in services expenditures in January means real consumer spending in that month already was 4.8% above fourth quarter averages at annual rates. While consumption of durables probably will decline slightly in the remainder of the quarter, as a result of bad weather and some inventory shortages for automobiles, further real gains in purchases of nondurables and services assures that the consumer component will be growing in excess of 5% at real annual rates during the first quarter.

As a result of modest inflation, this growth in consumer spending has only marginally exhausted the available savings pool. Thus, the consumer will remain well-positioned to provide further support for economic expansion during the second quarter. In the latter part of the year, any acceleration in inflationary pressures and/or reduction in domestic production and hiring could impact spending on consumer durables. Indeed, our projections show that automobile sales will peak early in the second quarter at a level of 11.3 million units.

A strong dollar continues to be the primary force behind restraining inflationary pressures. Since the beginning of this year, the dollar has appreciated more than 10% against the trade weighted value of other currencies. Although continued strength in the dollar appeared to be surprising during an environment of declining interest rates, changes in portfolio flows seem to provide a clue as to why dollars remain scarce in the world economy. Between 1982 and 1984, financial intermediaries from the United States reduced their net lending and investments abroad from $108 billion to $2 billion. Assuming no significant change in the capital demands of foreign investors seeking direct access to American financial assets, this shift in portfolio decisions by financial intermediaries would require the current account deficit to rise to the vicinity of $120 billion. Only then would significant dollar outflows associated with the trade gap offset the increased dollar repatriation developing in the capital account. Because of a surge in inventory investments during the third quarter of 1984, the current account deficit temporarily approached this required magnitude. However, this bunching of imports could not be sustained. Therefore, trade balances improved substantially during the fourth quarter, leading to nearly a $30 billion reduction in the current account deficit. Although trade balances once again are trending toward larger deficits early in 1985, the current account deficit is not expected to be sufficient to restore dollar equilibrium until the end of the second quarter. If interest rates rise in the interim, the dollar could remain strong into the third quarter, as even more capital becomes repatriated and as foreign investors increase their holdings of American assets.

Many importers have not fully exploited their market potential for fear of protectionist retaliation. Instead, they have used the reduced costs generated by a strong dollar to increase their profit margins in the U. S. market. It is likely that when the dollar begins declining, these margins will recede, allowing at least a 10% decline in the dollar's value from 1984 levels, or more than a 20% decline from prevailing rates, before any noticeable inflationary fallout develops.

Actually, our inflationary estimates are not reduced despite the favorable impact of a strong dollar. Partially offsetting the dollar's effect is the developing stress in the construction sector. Also, the harsh winter weather probably has added 0.2-0.3 percentage points to the CPI for 1985 by destroying a vegetable crop and seriously reducing U. S. capacity to produce citrus products. On the other hand, the rapid appreciation in the dollar virtually nullifies the equilibrating influence that the OPEC price changes otherwise would have generated. With oil priced in dollar while other commodities are falling in dollar terms, oil has become an especially expensive commodity for most of the world. Until oil prices decline further, by at least $2 per barrel in the spring, current upward pressures upon prices of petroleum products will be only temporary and will soon be reversed.

Despite unquestionably strong performances in the construction and consumption sectors, mixed signals are being generated for the remainder of investment activity. A sharp decline in both shipments and orders for nondefense capital goods during January shows that domestic industries are not receiving the orders to help industry become more efficient. Also, inventories have not yet been restored to desired levels in comparison to sales either in manufacturing, where inventories fell slightly in January, or in the retail sector. As a result, inventory accumulations may continue to restrain economic growth during the first quarter. With restraint also beginning to develop from the trade accounts, it is easy to see how some analysts believe that economic activity during the first quarter will be sluggish. However, some of this analysis is double counting by underestimating capital spending because of the weakness in shipments for nondefense capital goods and then subtracting from activity for the increase in the trade deficit. However, one component of this trade deficit is the foreign importation of machinery that is displacing domestic machinery production. Once this double counting is removed, it appears that economic activity has expanded vigorously during the first quarter and will continue to expand vigorously well into the second half of 1985.

Such a vigorous rebound in economic activity almost certainly will place upward pressures upon credit markets. Interest rates probably already have passed their low point for 1985. Upward pressures upon rates now are anticipated through the third quarter. Economic weakness and a significant restraint in the federal budget, which is unusually stimulative in 1985, will begin exerting downward pressures upon interest rates late in the year. Nevertheless, both short-term and long-term interest rates are expected to be higher by the end of the year than they currently are.

This increased economic activity initially will be adding to corporate profitability. However, when short-term interest rates begin rebounding, a large portion of the increased returns to capital will be funneled to interest recipients. Thus, corporate profitability once again will increase less than normally would be predicted during the second and third quarter by a rapid growth in real economic activity. Rising interest rates and only restrained gains in corporate profitability should limit the upside potential in equity values. Although the stock market normally should exceed 1300 on the Dow Jones, for all the other standard indices have reached levels that would justify a somewhat higher Dow Jones average, the 1300 barrier could prove to be formidable. At any rate, the stock market probably will be trending downward in the latter half of 1985.

Quarterly Profile of GNP

	1984-4	1985-1	1985-2	1985-3	1985-4	1986-1
Real:	4.9	5.2	5.1	4.4	1.6	0.3
Price:	2.8	3.0	2.6	4.1	5.1	4.7
Nominal:	7.8	8.3	7.9	8.7	6.7	5.1

Monthly Statistical Highlights for February 1985

Payroll employment +146,000; index of hours worked +0.3%; household employment +182,000; civilian unemployment rate 7.4%; personal income +0.4%; savings rate 5.8%; personal consumption +0.6%; retail sales +1.0%; auto sales 11.2 million; housing starts -0.5%; housing permits +0.5%; construction expenditures +2.0%; business inventories +0.3%; orders for durable goods +0.5%; orders for nondefense capital goods +8.9%; industrial production +0.3%; CPI +0.3%; PPI +0.3%; consumption deflator +0.3%; leading indicators +0.8%; real GNP +2.9%; M1 +12.1%; M2 +10.0%.

Monthly Statistical Highlights for March 1985

Payroll employment +229,000; index of hours worked +0.3%; household employment +277,000; civilian unemployment rate 7.3%; personal income +0.5%; savings rate 5.9%; personal consumption +0.6%; retail sales +0.4%; auto sales 11.0 million; housing starts +1.5%; housing permits +1.9%; construction expenditures +2.0%; business inventories +0.6%; orders for durable goods +1.0%; orders for nondefense capital goods +4.7%; industrial production +0.4%; CPI +0.3%; PPI +0.4%; consumption deflator +0.4%; leading indicators +0.3%; real GNP +5.1%; M1 +12.7%; M2 +10.0%.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	95154	95157	113.2	113.2	105649	105649	7.3	7.3	161.3	161.3
November	95489	95494	114.0	114.0	105932	105932	7.1	7.1	162.0	162.0
December	95798	95661	114.5	114.5	106273	106273	7.2	7.2	163.0	163.0
January 1985	95936	96009	114.6	114.5	106427	106391	7.4	7.4	163.4	162.7
February	96168	96155*	114.8	114.8*	106645	106573*	7.4	7.4*	163.9	163.2*
March	96478	96384	115.0	115.1	106848	106850	7.3	7.3	164.3	163.6
April	96711	96617	115.4	115.3	107122	107108	7.3	7.2	164.8	164.0
May	96922	96863	115.7	115.6	107583	107403	7.2	7.1	165.3	164.6
June	97100	97082	116.1	115.8	107966	107766	7.1	7.0	165.7	165.1
July	97328	97416	116.3	116.1	108158	108009	7.0	7.0	166.3	165.6
August	97564	97582	116.5	116.3	108346	108226	6.9	7.0	167.0	165.9
September	97827	97793	116.6	116.6	108528	108477	6.9	6.9	167.6	166.5
October	97949	97946	116.8	116.7	108743	108657	6.9	6.9	168.2	167.1
November	98067	98084	116.9	116.9	108936	108826	7.0	6.9	168.7	167.6
December	98185	98196	117.1	117.0	109124	109030	6.9	6.9	169.3	168.2
January 1986	98346	98317	117.2	117.1	109315	109158	6.9	7.0	169.9	168.9
February	98509	98468	117.3	117.3	109489	109367	6.9	7.0	170.8	169.4
March	98678	98617	117.2	117.4	109576	109562	7.0	7.0	171.8	170.1

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	3.082	3.082	1.831	1.831	178.9	175.3	2.636	2.636	2.458	2.461
November	3.102	3.102	1.845	1.847	169.2	167.3	2.651	2.650	2.482	2.483
December	3.118	3.114	1.863	1.864	150.5	154.9	2.661	2.657	2.511	2.502
January 1985	3.132	3.130	1.870	1.870	150.6	155.0	2.678	2.672	2.528	2.517
February	3.146	3.144*	1.881	1.881*	159.4	157.2*	2.696	2.689*	2.537	2.532*
March	3.161	3.160	1.892	1.891	166.0	160.9	2.711	2.707	2.545	2.546
April	3.175	3.174	1.903	1.899	156.8	154.4	2.719	2.718	2.562	2.564
May	3.189	3.193	1.913	1.911	152.4	154.7	2.730	2.731	2.578	2.576
June	3.204	3.210	1.924	1.922	146.3	152.7	2.741	2.744	2.595	2.591
July	3.224	3.227	1.935	1.932	147.5	149.8	2.757	2.758	2.609	2.608
August	3.245	3.241	1.945	1.940	152.2	145.2	2.774	2.768	2.622	2.623
September	3.265	3.260	1.956	1.952	156.6	151.0	2.791	2.786	2.635	2.635
October	3.280	3.280	1.965	1.961	150.7	150.5	2.800	2.802	2.649	2.652
November	3.296	3.296	1.974	1.970	146.5	151.7	2.812	2.815	2.666	2.663
December	3.311	3.312	1.983	1.979	147.4	148.9	2.831	2.828	2.684	2.679
January 1986	3.322	3.327	1.993	1.989	146.3	143.0	2.844	2.841	2.698	2.698
February	3.340	3.344	2.004	1.998	149.2	149.0	2.864	2.860	2.715	2.711
March	3.359	3.360	2.014	2.008	159.7	149.3	2.883	2.876	2.723	2.727

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	2374.2	2377.5	318.1	318.1	862.6	862.6	1193.5	1196.9	1065.1	1066.6
November	2396.9	2398.2	322.8	324.3	869.1	864.6	1204.9	1209.3	1074.7	1074.8
December	2424.9	2416.4	333.4	333.4	884.5	870.8	1207.1	1212.2	1088.8	1084.8
January 1985	2439.3	2429.9	332.5	331.8	886.3	870.6	1220.5	1227.5	1091.4	1088.1*
February	2450.1	2443.6*	333.2	335.8*	888.5	874.4*	1228.4	1233.4*	1092.3	1091.3
March	2457.1	2457.5	334.0	335.1	887.4	880.7	1235.7	1241.7	1091.6	1093.6
April	2473.1	2474.0	335.8	340.9	893.7	883.8	1243.6	1249.3	1096.7	1100.0
May	2487.8	2485.5	337.5	341.0	897.2	887.6	1253.1	1256.9	1101.8	1103.0
June	2501.9	2499.3	339.2	340.6	900.1	892.6	1262.6	1265.8	1106.1	1105.7
July	2515.5	2515.0	341.6	343.9	904.6	897.2	1269.3	1273.9	1108.6	1109.3
August	2529.4	2528.3	342.5	341.5	909.0	903.6	1277.9	1283.2	1110.4	1110.8
September	2538.8	2539.3	338.9	337.0	913.4	909.5	1286.5	1292.8	1110.6	1110.6
October	2552.9	2554.6	343.7	337.5	915.6	915.2	1293.6	1301.9	1113.3	1112.6
November	2571.5	2565.2	347.8	336.2	920.5	918.5	1303.2	1310.5	1117.1	1112.9
December	2584.7	2579.8	346.5	336.8	925.4	923.0	1312.8	1320.0	1118.4	1115.1
January 1986	2599.4	2597.5	347.2	339.7	930.6	928.4	1321.6	1329.4	1120.4	1118.9
February	2614.9	2609.4	348.5	338.0	936.6	932.9	1329.8	1338.5	1123.7	1120.1
March	2623.9	2623.9	346.2	337.4	939.7	938.6	1338.0	1347.9	1124.2	1122.1

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	108.73	108.73	15.89	15.89	9.7	9.7	70.32	70.32	22.52	22.52
November	110.90	110.40	16.29	16.17	9.8	9.8	71.61	71.24	23.01	22.99
December	110.82	109.87	16.47	16.20	11.0	11.0	71.88	71.00	22.47	22.68
January 1985	112.24	110.69	16.52	16.27	10.7	11.2	72.43	70.83	23.29	23.59
February	112.50	111.75*	16.78	16.38*	10.6	11.2*	72.61	71.54*	23.11	23.83*
March	112.51	112.18	16.73	16.46	10.6	11.0	72.52	72.06	23.26	23.66
April	113.24	113.13	16.75	16.57	10.8	11.3	73.04	72.31	23.45	24.25
May	113.73	113.45	16.79	16.65	10.9	11.2	73.32	72.62	23.62	24.18
June	114.17	113.81	16.93	16.71	10.8	11.1	73.56	73.03	23.68	24.07
July	114.83	114.58	16.96	16.84	10.8	11.2	73.93	73.41	23.94	24.33
August	115.30	114.82	17.14	16.93	10.7	11.0	74.29	73.93	23.87	23.96
September	115.23	114.76	16.84	16.98	10.7	10.7	74.65	74.41	23.74	23.37
October	115.98	115.29	17.49	17.06	10.6	10.6	74.83	74.88	23.66	23.35
November	116.87	115.40	17.91	17.09	10.5	10.4	75.23	75.15	23.73	23.16
December	117.12	115.84	17.91	17.18	10.4	10.4	75.63	75.52	23.58	23.14
January 1986	117.62	116.63	18.10	17.31	10.3	10.5	76.05	75.96	23.47	23.36
February	118.27	116.80	17.99	17.40	10.4	10.3	76.54	76.33	23.74	23.07
March	118.25	117.18	18.29	17.53	10.1	10.1	76.80	76.79	23.16	22.86

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	1.534	1.564	0.963	0.979	1.418	1.436	318.8	317.9	194.7	194.1
November	1.552	1.600	1.001	1.043	1.591	1.613	322.2	316.4	196.4	192.9
December	1.567	1.595	1.040	1.084	1.588	1.627	326.4	318.4	198.3	193.1
January 1985	1.552	1.833	1.026	1.041	1.508	1.664	323.9	324.9	196.3	169.0
February	1.615	1.822*	1.062	1.069*	1.493	1.673*	326.4	331.5*	197.6	199.0*
March	1.684	1.849	1.107	1.113	1.526	1.704	329.2	338.0	199.0	202.0
April	1.741	1.921	1.139	1.156	1.584	1.765	334.0	344.2	201.2	205.0
May	1.859	1.952	1.163	1.189	1.649	1.784	338.3	346.0	202.9	205.3
June	1.935	1.950	1.187	1.194	1.738	1.792	343.7	351.4	205.3	207.6
July	1.926	1.953	1.195	1.712	1.759	1.753	346.2	355.1	206.1	208.9
August	1.908	1.910	1.203	1.179	1.742	1.709	348.4	356.3	206.6	209.0
September	1.761	1.834	1.178	1.132	1.664	1.662	350.5	356.5	207.3	208.6
October	1.754	1.780	1.143	1.096	1.627	1.604	352.7	357.1	207.5	208.2
November	1.738	1.717	1.103	1.065	1.605	1.556	353.5	354.9	207.0	206.3
December	1.722	1.721	1.072	1.082	1.586	1.565	354.0	353.9	206.2	205.0
January 1986	1.738	1.649	1.095	1.053	1.593	1.546	354.3	354.7	205.5	205.0
February	1.692	1.593	1.098	1.011	1.546	1.482	353.8	353.5	204.4	203.2
March	1.640	1.635	1.056	1.063	1.493	1.491	354.0	353.1	203.6	201.9

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	126.8	126.0	56.9	56.7	135.1	135.2
November	130.7	127.6	56.9	56.2	134.6	132.6
December	132.3	130.8	58.0	56.2	136.0	131.5
January 1985	131.7	134.3	57.2	57.0	135.0	133.6
February	133.0	134.5*	57.8	57.5*	135.6	139.5*
March	134.6	136.1	58.5	58.9	136.1	143.0
April	136.2	137.8	58.5	59.6	139.3	146.8
May	137.9	139.1	58.1	59.9	142.3	147.0
June	139.6	140.6	58.9	60.2	145.2	150.6
July	140.3	141.2	59.0	60.5	146.9	153.4
August	141.2	141.8	59.2	60.8	148.0	153.7
September	142.0	142.2	59.4	61.3	149.1	153.0
October	143.5	143.1	59.9	61.6	149.3	152.4
November	144.7	143.0	60.5	61.8	148.3	150.1
December	145.6	143.5	61.2	62.3	147.2	148.1
January 1986	147.0	144.7	61.2	62.6	146.1	147.4
February	147.7	144.9	61.0	63.0	145.1	145.6
March	148.5	145.8	61.5	63.2	144.0	144.1

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	286.4	286.4	96.07	96.07	25.38	25.38	26.54	26.54
November	285.5	285.5	104.04	104.04	27.13	27.13	27.29	27.29
December	286.4	285.4	101.89	101.99	25.75	26.62	27.76	28.68
January 1985	287.2	284.9	103.19	103.86	26.62	23.11	27.56	25.70
February	288.0	285.5	105.66	104.43*	27.43	25.16	27.71	26.08
March	289.3	286.4	105.92	105.48	27.78	26.35	27.87	26.53
April	290.9	288.2	107.16	107.19	27.95	26.69	27.73	26.58
May	292.2	290.3	108.05	106.84	28.04	26.55	27.66	26.69
June	294.2	292.4	107.65	108.26	27.75	27.42	27.58	27.03
July	296.3	294.5	107.21	109.73	27.53	27.89	27.46	27.21
August	298.2	297.3	105.93	107.42	27.26	26.82	27.48	27.06
September	300.3	299.1	105.88	106.03	27.46	26.95	27.45	27.11
October	301.6	301.6	104.29	105.58	26.89	27.14	27.26	27.19
November	303.9	303.1	105.08	106.65	26.98	27.48	27.30	27.33
December	306.5	304.9	108.35	105.84	27.53	27.02	27.35	27.30
January 1986	308.3	306.3	108.52	107.28	27.38	27.53	27.36	27.39
February	310.1	308.1	108.95	106.43	27.26	27.29	27.33	27.46
March	312.2	310.0	108.16	105.89	27.05	27.08	27.35	27.51

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	563.8	563.8	6.35	6.35	164.5	164.4	81.5	81.4
November	564.2	565.0	6.28	6.28	165.2	165.0	81.6	81.5
December	566.4	566.5	6.43	6.62	166.2	165.9	81.9	81.7
January 1985	565.8	567.6	6.58	6.59	167.2	166.6	82.2	81.9
February	569.2	569.1	6.71	6.73*	168.1	167.1	82.4	82.0
March	573.2	572.7	6.85	6.86	169.0	167.8	82.7	82.2
April	575.9	576.3	6.93	6.98	169.6	168.5	82.8	82.3
May	579.3	579.9	6.99	6.95	170.3	169.3	83.0	82.6
June	582.0	583.0	6.96	7.03	171.0	170.0	83.2	82.7
July	585.4	587.1	7.11	7.10	171.3	170.6	83.2	82.9
August	588.8	592.4	7.24	7.21	171.5	170.9	83.1	82.8
September	592.9	596.0	7.37	7.34	171.3	171.3	82.9	82.9
October	595.7	600.1	7.45	7.46	171.0	171.5	82.6	82.8
November	599.3	603.3	7.53	7.55	170.7	171.7	82.3	82.7
December	603.6	606.2	7.48	7.63	170.4	172.0	81.9	82.7
January 1986	607.5	608.9	7.69	7.76	170.4	171.8	81.6	82.5
February	610.1	612.5	7.83	7.93	169.8	171.5	81.3	82.1
March	613.3	616.3	7.98	8.04	169.5	171.2	81.0	81.8

Fore. = February Forecast
C.E. = Current Expectations
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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	-8.37	-8.37	164.5	164.0	3721	3726	1649	1650	1.5	2.8
November	-8.94	-8.94	166.6	164.8	3753	3768	1661	1665	1.0	2.5
December	-6.24	-6.79*	167.1	163.9	3784	3798	1673	1678	3.2	4.0
January 1985	-7.96	-8.96	168.5	166.7	3812	3818	1680	1681	0.3	1.7
February	-8.83	-9.98	169.8	168.1	3832	3837	1682	1685	-1.6	2.4
March	-9.69	-10.25	169.9	168.6	3857	3866	1687	1692	-0.7	4.3
April	-9.18	-10.72	170.8	169.9	3883	3891	1695	1702	2.7	4.2
May	-8.73	-11.05	171.8	169.3	3903	3915	1702	1708	5.8	3.7
June	-9.47	-11.43	172.1	170.5	3924	3936	1708	1711	6.8	5.2
July	-9.56	-11.29	171.7	171.1	3947	3971	1712	1721	9.2	5.9
August	-9.78	-11.05	171.3	170.4	3969	4000	1714	1727	10.6	6.5
September	-9.89	-10.65	171.4	170.1	3992	4019	1716	1728	11.9	6.2
October	-9.93	-10.81	170.8	169.6	4009	4042	1718	1731	10.9	7.5
November	-9.74	-10.57	171.3	170.5	4030	4066	1727	1734	10.3	8.9
December	-9.30	-10.43	172.9	169.9	4052	4078	1725	1732	10.5	8.6
January 1986	-9.59	-10.26	173.2	170.7	4074	4090	1727	1731	11.6	8.5
February	-9.68	-10.52	173.0	170.4	4093	4115	1729	1735	12.2	9.7
March	-9.78	-10.41	172.6	170.2	4112	4134	1730	1735	12.8	10.3

Fore. = February Forecast
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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	314.6	314.6	290.9	290.9	323.2	323.2	225.60	225.75
November	315.3	315.3	292.4	292.4	323.8	323.8	225.95	226.25
December	315.8	315.9	292.7	292.6	323.0	323.0	226.16	226.30
January 1985	316.4	316.5	292.1	292.6	322.3	322.3	226.93	227.15
February	317.1	317.5*	292.7	293.4*	322.8	322.6*	227.81	227.73
March	317.8	318.4	293.2	294.3	323.2	323.5	228.66	228.46
April	318.8	319.0	293.5	294.1	324.0	324.1	229.11	228.66
May	319.9	319.6	294.1	294.4	324.0	323.6	229.38	229.16
June	320.8	320.6	294.7	294.8	324.9	324.3	229.74	229.99
July	321.7	321.6	295.3	295.3	326.1	325.1	230.58	230.69
August	322.9	322.9	295.7	295.8	327.8	326.0	231.59	231.57
September	323.8	324.3	296.4	296.4	328.0	325.7	232.61	232.58
October	325.1	325.6	296.9	297.1	329.6	327.9	233.42	233.57
November	326.5	326.8	297.5	297.8	329.9	328.6	234.17	234.53
December	327.9	328.1	298.3	298.5	329.9	329.2	234.92	235.46
January 1986	329.1	329.1	299.0	299.2	331.1	330.0	235.84	236.26
February	330.4	330.4	299.9	299.9	332.5	331.2	236.78	237.23
March	331.7	331.5	301.0	300.6	333.9	332.4	237.75	238.23

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	222.9	222.9	178.4	178.4	219.6	219.8	241.4	241.3	163.7	163.7
November	223.0	223.1	178.4	178.5	219.2	219.2	242.3	242.5	164.1	164.0
December	222.9	222.7	178.4	178.2	219.2	218.7	242.7	242.7	164.6	164.9
January 1985	223.5	223.3*	179.0	180.0*	219.0	218.3*	243.6	243.1*	165.0	165.8
February	224.3	223.9	179.3	180.2	219.4	219.0	244.8	243.9	165.2	166.6*
March	225.1	224.7	179.4	180.1	219.9	220.1	245.9	244.7	165.4	167.3
April	225.5	224.9	179.7	180.3	220.3	219.8	246.8	245.5	166.0	167.9
May	225.8	225.3	179.8	180.0	220.0	220.0	247.5	246.4	166.7	168.5
June	226.2	226.0	179.7	180.5	220.1	220.3	248.2	247.3	167.4	169.3
July	226.9	226.7	180.1	180.9	220.8	220.9	249.3	248.3	168.0	170.0
August	227.8	227.6	180.7	181.3	221.3	221.5	250.4	249.4	168.6	170.5
September	228.6	228.6	181.3	181.6	221.9	222.3	251.6	250.6	169.1	170.9
October	229.3	229.6	182.0	182.5	222.7	223.0	252.4	251.7	170.0	171.5
November	230.2	230.5	181.5	182.6	223.6	223.7	253.3	252.9	170.8	172.0
December	231.1	231.4	181.5	182.8	224.5	224.5	254.2	254.0	171.7	172.6
January 1986	232.0	232.1	182.1	183.1	225.1	225.2	255.4	255.1	172.4	173.3
February	232.7	233.0	182.8	183.4	225.8	225.8	256.6	256.1	173.1	174.0
March	233.4	233.8	183.5	183.7	226.5	226.4	257.8	257.3	173.9	174.9

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	214.4	214.7	545.5	548.4	2317.4	2318.7	9.99	9.99	9.87	9.87
November	216.1	216.1	549.3	553.9	2346.1	2345.8	9.43	9.43	8.81	8.81
December	217.3	217.4	553.9	558.7	2375.3	2371.6	8.38	8.38	8.28	8.28
January 1985	219.0	218.7	557.2	562.9	2393.8	2399.4	8.35	8.35	8.05	8.00
February	220.0	219.6*	562.8	568.3*	2412.6	2418.6*	8.56	8.43*	8.43	8.28*
March	221.1	221.8	568.3	574.0	2431.2	2437.9	9.07	8.76	8.82	8.81
April	222.8	222.9	571.7	576.2	2450.8	2457.4	9.23	9.27	[illegible]3	9.16
May	224.5	224.1	573.6	578.6	2467.4	2474.6	9.20	9.68	8.86	9.47
June	226.1	225.6	575.5	582.3	2484.0	2494.4	9.21	9.75	8.98	9.58
July	227.0	226.7	579.8	585.6	2499.3	2514.4	9.58	10.23	9.27	9.94
August	227.9	228.0	583.2	590.1	2519.4	2537.0	9.96	10.46	9.76	10.07
September	228.8	228.9	587.6	591.7	2539.6	2552.2	9.92	10.21	9.89	9.83
October	230.2	230.0	590.7	594.1	2555.2	2568.8	9.99	10.02	9.72	9.72
November	231.6	231.4	593.6	597.0	2573.5	2586.8	9.95	9.84	9.68	9.56
December	233.0	232.6	596.4	599.6	2592.1	2604.9	9.91	9.66	9.63	9.34
January 1986	234.0	234.0	599.1	602.1	2606.5	2623.1	9.78	9.56	9.49	9.25
February	235.1	235.2	601.4	605.2	2618.4	2644.1	9.63	9.33	9.23	9.20
March	235.9	236.1	602.8	607.0	2630.9	2660.0	9.47	9.32	9.16	9.07

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	12.63	12.63	10.25	10.25	10.12	10.12	10.38	10.38	12.58	12.58
November	12.29	12.29	10.17	10.17	9.03	9.03	9.18	9.18	11.77	11.77
December	12.13	12.13	9.95	9.95	8.44	8.44	8.60	8.60	11.06	11.06
January 1985	12.08	12.08	9.51	9.42	8.02	8.03	8.20	8.14	10.50	10.62
February	11.83	12.09*	9.21	9.43*	8.43	8.42*	8.65	8.62*	10.50	10.50*
March	11.91	12.64	9.29	9.92	9.16	8.83	9.32	9.05	10.50	10.73
April	12.06	12.76	9.47	9.99	9.25	9.36	9.46	9.51	10.93	11.00
May	12.17	12.86	9.58	10.10	9.16	9.73	9.29	9.16	11.12	11.46
June	12.29	12.89	9.69	10.13	9.20	9.70	9.43	9.95	11.25	11.50
July	12.35	13.03	9.76	10.27	9.53	10.09	9.77	10.28	11.38	11.93
August	12.32	13.08	9.73	10.41	9.85	10.35	10.08	10.54	11.75	12.26
September	12.40	12.72	9.81	10.05	9.93	10.26	10.21	10.50	11.75	12.50
October	12.46	12.61	9.97	9.94	9.96	10.05	10.25	10.33	11.75	12.50
November	12.52	12.50	10.04	9.78	9.98	9.73	10.28	9.98	11.75	12.24
December	12.49	12.36	9.99	9.63	9.98	9.54	10.25	9.80	11.75	12.00
January 1986	12.36	12.14	9.86	9.35	9.84	9.46	10.09	9.73	11.75	12.00
February	12.26	11.96	9.69	9.15	9.76	9.24	9.96	9.49	11.75	11.82
March	12.31	11.98	9.70	9.20	9.57	9.17	9.73	9.38	11.75	11.50

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MONTHLY PROJECTIONS
MARCH 1985

Dr. Donald Ratajczak, Director
For Release: March 26, 1985

WEATHER FREEZES ECONOMY IN FIRST QUARTER

The surprising decline in hours worked during February, followed by confirmation in declining industrial production unquestionably indicates that economic activity fell in February. According to our estimates for February, which require guesstimates on the merchandise trade balances and construction expenditures, real GNP fell at an annual rate of 2.8%. This sharp decline largely explains why the "flash" estimate of first quarter GNP showed only a 2.1% increase.

While the economy stalled in February, the issue is what caused the stall. Our estimates show a reasonable increase in imports, leading to a $1.4 billion increase in the merchandise trade deficit. In the absence of this increase, real GNP would have advanced slightly. If imports are undermining manufacturing activity in the United States, as some analysts maintain, then consumption will continue to outstrip income, as it did in February, and corporate investment will continue to outstrip corporate cash flow until diminished household and corporate savings lead to such a sharp increase in interest rates that economic activity no longer can advance. (It should be noted that economic sluggishness caused by import penetration will initially lead to an imbalance between expenditures and savings resulting in higher interest rates rather than the interest rate weakness that credit markets anticipate.)

Another explanation for the sluggishness in February, however, is catastrophe No. 58. In the middle of February a severe winter storm so impacted the midwest that industrial claims for weather-related damages were unusually high. That winter storm occurred during the week when the employment survey was being conducted. This explains why hours worked in the automobile industry fell by 2.3 hours despite no evidence that excess inventories were building. Industrial production also was impacted by this winter weather. If the weather caused economic weakness in February, then a rebound should be expected in March and the months beyond. If imports were responsible for February's weakness, then the 0.6 hour reduction in the average manufacturing workweek during February should be followed by further declines in manufacturing payroll employment in March and beyond. The evidence almost certainly will show that weather, rather than import penetration, was the major factor slowing economic activity in February. As a result, the "flash" estimate understated economic expansion during the first quarter. If March rebounds as much as we anticipate, GNP in the first quarter will expand 3.6% after adjustment for inflation.

The second surprise in the "flash" estimate was the 5.4% increase in the GNP deflator. For reasons that we cannot fully fathom, our methodology cannot adequately capture the composition shifts that are included in the GNP deflator. Because of heavy utility utilization in January, both the nondurable and service deflators expanded sharply. This was the result of higher than normal use of fuel oil and more significant than normal use of natural gas and electricity. These components have unusually high inflation factors in comparison to the base year for the GNP deflator. Excluding these composition shifts, which almost certainly will be eliminated during the second quarter, the GNP deflator would have advanced 4.1%. Another 0.4 percentage points was added to the deflator as a result of a 4.0% wage increase for military personnel and a 3.5% increase for federal civilian workers during January. The military is scheduled for another 3.0% pay increase in June, but no other federal government pay changes are anticipated for the remainder of this year. For that reason, this increase in the deflator as a result of government salary increases also will not be present in other quarterly data. Indeed, the only area truly showing increasing inflationary pressures during the first quarter was construction. Further increases in construction prices are anticipated during the spring. In addition, because the official statistics were slow to pick up a change in gasoline prices, a sharp increase in energy prices will be reflected in second quarter GNP figures. Toward the end of the second quarter, however, energy prices are expected to moderate once again.

One unexpected potential inflationary factor is the weakness that developed in the dollar following problems in some Ohio thrifts and the subsequent announcement that economic activity was sluggish in the United States during the first quarter. We had anticipated that foreign investors would reduce their dollar position once growth rates in this country fell below those in other parts of the world. However, the weakness occurred earlier than anticipated because of the winter weather. As a rebound is now expected, it is likely that the dollar once again will regain strength, at least into the summer. If so, inflationary concerns from a weakening dollar can be postponed until early in 1986.

The credit markets have been unable to determine what is really happening to the economy. The stock market has decided that dollar weakness, at least up to a point, is favorable. On the other hand, dollar strength is unfavorable. This analysis has some merit, as a strong dollar reduces the ability of commodity producing industries in the United States to raise profit margins. Only a strong economy can be utilized to increase profitability. Of course, substantial dollar weakness would lead to an inflationary fallout that would raise interest rates and diminish the value of the profits being generated. Nevertheless, a little inflation is viewed as favorable for the equity markets, and this appears to be an appropriate assessment.

Credit markets are not sure what is happening. Explosive monetary growth during the first two months is partially viewed as a seasonal distortion.

Nevertheless, currency also began to grow rapidly in February, and the currency seasonals are not as deficient as those on checkable deposits. This rapid growth in monetary aggregates despite apparent weakness in the economy has created confusion in the credit markets. As mentioned above, sluggishness generated by import penetration or even by productivity-reducing weather disruptions, should not be cheered by the credit markets. Apparently, the Federal Reserve has been slightly concerned by the sluggish statistics and therefore has accommodated more rapid money demand than is consistent with stable inflationary targets. The Federal Reserve probably will become less tolerant of this accommodation when the spring rebound develops and when signs of modestly rising inflation increase as a result of the temporary reversal in energy price.

Quarterly Profile of GNP

	1984-4	1985-1	1985-2	1985-3	1985-4	1986-1
Real:	4.3	3.6	5.2	3.5	2.1	1.3
Price:	2.8	5.0	3.1	3.8	4.7	4.9
Nominal:	7.1	8.8	8.5	7.4	6.9	6.3

Monthly Statistical Highlights for March 1985

Payroll employment +263,000; index of hours worked +0.6%; household employment +312,000; civilian unemployment rate 7.3%; personal income +0.5%; savings rate 5.2%; personal consumption +0.6%; retail sales +0.8%; auto sales 10.7 million; housing starts +9.5%; housing permits -1.1%; construction expenditures +1.9%; business inventories +0.4%; orders for durable goods -0.7%; orders for nondefense capital goods -4.2%; industrial production +0.5%; CPI +0.5%; PPI +0.6%; consumption deflator +0.3%; leading indicators +0.4%; real GNP +6.6%; M1 +5.0%; M2 +8.7%.

Monthly Statistical Highlights for April 1985

Payroll employment +191,000; index of hours worked +0.2%; household employment +210,000; civilian unemployment rate 7.3%; personal income +0.4%; savings rate 4.9%; personal consumption +0.7%; retail sales +1.0%; auto sales 10.9 million; housing starts +4.1%; housing permits +5.3%; construction expenditures +1.9%; business inventories +0.5%; orders for durable goods +0.3%; orders for nondefense capital goods -1.8%; industrial production +0.1%; CPI +0.3%; PPI +0.3%; consumption deflator +0.3%; leading indicators +0.4%; real GNP +5.1%; M1 +6.7%; M2 +8.8%.

COMMENTARY

Employment - A 75,000 plunge in manufacturing employment during February was largely attributed by some to imports. Also, the manufacturing workweek fell by a surprisingly strong 0.6 hours. However, 25,000 of that job loss was in automobile production. Although the intrusion of more Japanese cars will impact production later in the year, this 25,000 job loss along with a 2.3 hour reduction in the automobile sector appears to be related to the especially violent snow storm that arrived during the survey week. Certainly, the 50,000 job reduction in construction also can be attributed to weather rather than import competition. As a result, a significant rebound is expected both in the workweek and in employment during March. A key to weather conditions rather than economic conditions causing the February dislocation can be found in household employment, where 294,000 additional respondents indicated they were employed. Such a discrepancy between the civilian and establishment surveys normally occurs when weather forces plants to close.

Also significant was the surprisingly rapid increase in hourly wages reported for the manufacturing and construction industries. If these industries were under economic stress, such an acceleration in hourly wages is unlikely. Rather, an imbalance between pay and hours worked during the survey week led to higher estimates of hourly earnings than otherwise would have developed. As a result, the hourly earnings index is expected to decline slightly in March.

Personal Income & Outlays - Although the upward movement in interest rates will add to property income during the spring, farm incomes are expected to continue falling until they reach the mid-teens about midyear. To a large extent, the sharp downward movement in personal savings is associated with this more than $20 billion drop in farm incomes. Traditionally, changes in those incomes are almost completely reflected in the level of savings. Thus far, tax liabilities have been growing above our estimates. This may be caused by the slowness in issuing refunds resulting from a new computer program at the IRS. If so, a significant decline in tax liability may occur in the April and May estimates. This would generate higher personal savings rates than are currently being projected.

In February, outlays conformed closely with retail sales estimates. Nondurables showed a healthy rebound as a result of significant expansion in general merchandise and apparel. Further increases in nondurables are expected in March as rising gasoline prices begin to influence this series. As expected, purchases of services slowed in February as the weather became more normal in terms of temperatures. It is possible that a further slowing in service expenditures will develop in March as spring weather materializes. After that, a more normal trend for service spending is anticipated.

Some confusion has been generated concerning the unit auto sales for February. The monthly seasonals are incompatible with the 10-day seasonals. Whether this is a problem associated with the unusual weather-induced variations created in February is not clear. Retail sales also becomes confusing in March and April as a result of a shifting Easter holiday. Thus, surprises in both months are possible as the Easter holiday must at least partially be arbitrarily adjusted for seasonal patterns.

Construction - The plunge in construction employment during February has been substantiated by the drop in housing starts. Significantly, declining starts all were in multi-family units. Apparently, bad weather forestalled the development of some of these projects. This is especially likely, in the mid-west, the region that suffered the largest decline in housing starts and experienced the worst weather. The decline in permits suggests that a significant backlog of permits for multi-family units has already accumulated. Therefore, permits are not expected to grow significantly next month. Nevertheless, tax issues probably will stimulate multi-family construction during the spring, leading to relatively vigorous housing activity.

Weather also is expected to have an impact upon nonresidential construction. With the release of $7 billion for highway improvements, public construction should grow rapidly during the summer and fall. Nonresidential construction also is expected to continue the rapid rate of expansion that occurred in the second half of 1984. By the end of 1985, however, completions of nuclear facilities will begin to reduce the upward thrust of nonresidential activity.

Business Activity - The greatest surprise during February was in orders for nondefense capital goods, which surged 29.6%. This eliminated the declining backlogs that had developed in the previous four months. Although such a peak in orders is not expected to be sustained, orders now have catapulted so far above shipments that more significant growth in shipments should now be anticipated well into the summer. A decline in defense orders to less than defense shipments is a minor abberation that should have no appreciable significance upon defense shipments in the months ahead. Moreover, a rebound now should be anticipated in defense orders, leading to more rapid growth in durable goods orders in the next few months.

Inventories continue to grow slowly early in 1985 as a result of weather disruptions at production facilities. Desired inventories may now be above current inventory levels. Thus, a spurt in business inventories is expected during the second quarter, leading to relatively vigorous economic expansion at that time.

Prices - The CPI in February rose 0.3% despite further declines in gasoline prices. As several commentators had noted a rise in gasoline prices during February, the BLS results are surprising. Certainly, gasoline prices must rise in the March release. This is the reason why both the CPI and PPI for March are expected to show rapid price increases. It is possible that the PPI may be overstating the March increase in energy prices, but this will merely mean that the large increase in the PPI then will be postponed until April. It is clear that the measured indices will show significant price increases in the next two months.

The price indices are showing small increases, however, for the consumption deflator. The reason for this is the unraveling of the price gains during January that were induced by composition shifts. The composition changes were especially significant for consumer services, where a cold snap required much higher use of utilities than normal. A return to more normal consumption patterns should, therefore, moderate the consumption deflator.

The composition shift in the consumption deflator was one of the contributors to the surprisingly large GNP deflator for the first quarter. As the composition changes will unravel, but will not be revised away, the final GNP deflator for the first quarter is still expected to show a 5.0% rate of increase. We are working more diligently at trying to capture these composition shifts, and hope that we will not be fooled again in our analysis. This is especially important, as our real GNP estimates are derived from the estimated deflator and nonminal expenditures patterns.

Miscellaneous - Merchandise trade balances are expected to be higher than originally projected in our February forecast. Rapid increases in oil imports during March and April will be the major factor causing such high trade deficits. However, the importation of automobiles will be more substantial than the lessening of imported steel products.

Because of the sharp decline in the workweek during February, the leading indicators are not changing in that month. In March, however, a reversal of the decline in the workweek should add appreciably to the leading indicators. However, plant and equipment orders should decline after their dramatic surge during February.

Our analysis indicates that real GNP fell in February. This has disproportionately distorted the "flash" estimates. When the rebound occurs in March, "flash" estimates will need to be revised upward.

FINANCIAL MARKETS

Problems at some Ohio thrifts have turned the attention of the Federal Reserve from economic policy to financial institution solvency. There is little likelihood that any significant change will occur in Federal Reserve policy until the Ohio crisis is contained. At the same time, slow IRS computers are reducing the near term borrowing needs of the government and distorting the cash positions of households. The impact will be to restrain checkable deposits in March and April, followed by a surge in May. This should be reflected in shifts in monetary growth over that time.

After the Ohio crisis is contained, the Federal Reserve will be looking upon statistics which will reveal some increases in inflationary pressures along with increases in economic activity. The Ohio crisis has temporarily stalled the upward surge in the dollar. Therefore, the Federal Reserve almost certainly will move toward less accommodation of private credit market pressures in the next few months. This means that the federal funds rate will begin to trade above the commercial paper rate. As the commercial paper rate has been moving upward significantly in the past six weeks, this will create a significant increase in short-term interest rates, resulting in upward movements in the prime rate.

Long-term interest rates already are sensing that credit market pressures are stronger than the short-term interest rates reveal. Further upward movements in long-term securities in response to rising short-term rates should not be dramatic. Nevertheless, somewhat less than a percentage point increase in long-term interest rates is expected to develop in the next few months. Economic weakness toward the end of 1985 may begin exerting downward pressures upon interest rates at that time.

Equity Markets - The sluggish performance of the economy during the first quarter had some adverse effects upon profit growth at that time. According to the index of hours worked, productivity did not increase during this period. With long-term interest rates rising, the modest to non-existant gains in operating profits should have a slight adverse effect upon equity values. As interest rates are expected to rise further during the second quarter, further modest weakness is anticipated in equity values for the remainder of this year. Although a market rally during the latter part of the second quarter could propel the stock market to new highs temporarily, it appears that equity markets already may have reached their highs for this year. The good news is that the downward risk in equity ownership appears to be limited. According to our stock market formulas, downward exposure should not cause the market to fall below 1100.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	95154	95157	113.2	113.2	105649	105649	7.3	7.3	161.3	161.3
November	95489	95497	114.0	114.0	105932	105932	7.1	7.1	162.0	162.0
December	95798	95681	114.5	114.6	106273	106273	7.2	7.2	163.0	163.1
January 1985	95936	95993	114.6	114.8	106427	106391	7.4	7.4	163.4	162.8
February	96168	96112	114.8	114.4	106645	106685	7.4	7.3	163.9	163.7
March	96478	96375*	115.0	115.1*	106848	106997*	7.3	7.3*	164.3	163.5*
April	96711	96566	115.4	115.3	107122	107207	7.3	7.3	164.8	163.9
May	96922	96817	115.7	115.6	107583	107480	7.2	7.2	165.3	164.5
June	97100	97150	116.1	115.9	107966	107861	7.1	7.1	165.7	165.1
July	97328	97399	116.3	116.1	108158	108168	7.0	6.9	166.3	165.6
August	97564	97649	116.5	116.3	108346	108442	6.9	6.9	167.0	166.2
September	97827	97899	116.6	116.5	108528	108782	6.9	6.8	167.6	166.8
October	97949	98066	116.8	116.6	108743	108979	6.9	6.8	168.2	167.4
November	98067	98232	116.9	116.7	108936	109178	7.0	6.8	168.7	168.0
December	98185	98401	117.1	116.9	109124	109404	6.9	6.8	169.3	168.6
January 1986	98346	98568	117.2	117.0	109315	109595	6.9	6.8	169.9	169.2
February	98509	98652	117.3	117.1	109489	109646	6.9	6.9	170.8	169.9
March	98678	98735	117.2	117.1	109576	109828	7.0	7.0	171.8	170.7

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	3.082	3.079	1.831	1.831	178.9	171.6	2.636	2.633	2.458	2.462
November	3.102	3.098	1.845	1.847	169.2	164.9	2.651	2.646	2.482	2.481
December	3.118	3.112	1.863	1.865	150.5	152.5	2.661	2.655	2.511	2.502
January 1985	3.132	3.131	1.870	1.873	150.6	152.3	2.678	2.673	2.528	2.521
February	3.146	3.141	1.881	1.882	159.4	140.3	2.696	2.680	2.537	2.540
March	3.161	3.158*	1.892	1.892*	166.0	139.9*	2.711	2.697*	2.545	2.557*
April	3.175	3.172	1.903	1.902	156.8	133.5	2.719	2.709	2.562	2.576
May	3.189	3.193	1.913	1.914	152.4	133.9	2.730	2.725	2.578	2.591
June	3.204	3.214	1.924	1.927	146.3	139.0	2.741	2.743	2.595	2.604
July	3.224	3.228	1.935	1.936	147.5	132.4	2.757	2.754	2.609	2.621
August	3.245	3.244	1.945	1.946	152.2	134.1	2.774	2.768	2.622	2.634
September	3.265	3.262	1.956	1.957	156.6	135.1	2.791	2.779	2.635	2.644
October	3.280	3.277	1.965	1.965	150.7	131.9	2.800	2.791	2.649	2.659
November	3.296	3.293	1.974	1.974	146.5	129.1	2.812	2.804	2.666	2.675
December	3.311	3.310	1.983	1.984	147.4	127.2	2.831	2.819	2.684	2.692
January 1986	3.322	3.326	1.993	1.995	146.3	129.3	2.844	2.833	2.698	2.704
February	3.340	3.342	2.004	2.004	149.2	127.0	2.864	2.850	2.715	2.723
March	3.359	3.358	2.014	2.014	159.7	132.0	2.883	2.865	2.723	2.733

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	2374.2	2378.1	318.1	318.1	862.6	862.6	1193.5	1197.4	1065.1	1067.0
November	2396.9	2395.9	322.8	324.3	869.1	864.6	1204.9	1206.9	1074.7	1074.3
December	2424.9	2415.5	333.4	336.4	884.5	872.2	1207.1	1206.9	1088.8	1085.0
January 1985	2439.3	2433.7	332.5	334.0	886.3	875.7	1220.5	1223.9	1091.4	1085.9
February	2450.1	2451.9	333.2	334.7	888.5	886.7	1228.4	1230.5	1092.3	1089.2*
March	2457.1	2467.7*	334.0	337.1*	887.4	893.8*	1235.7	1236.8*	1091.6	1092.8
April	2473.1	2486.2	335.8	341.9	893.7	899.9	1243.6	1244.4	1096.7	1098.1
May	2487.8	2500.7	337.5	344.8	897.2	902.9	1253.1	1253.0	1101.8	1103.0
June	2501.9	2512.5	339.2	343.9	900.1	905.0	1262.6	1263.6	1106.1	1104.8
July	2515.5	2528.5	341.6	345.5	904.6	910.3	1269.3	1272.7	1108.6	1108.3
August	2529.4	2540.3	342.5	344.8	909.0	914.0	1277.9	1281.5	1110.4	1109.2
September	2538.8	2549.2	338.9	341.1	913.4	918.2	1286.5	1289.9	1110.6	1108.8
October	2552.9	2563.4	343.7	342.6	915.6	922.3	1293.6	1298.5	1113.3	1111.1
November	2571.5	2578.1	347.8	342.7	920.5	928.1	1303.2	1307.3	1117.1	1113.8
December	2584.7	2593.9	346.5	344.1	925.4	932.9	1312.8	1316.9	1118.4	1116.2
January 1986	2599.4	2604.8	347.2	342.6	930.6	937.8	1321.6	1324.4	1120.4	1116.7
February	2614.9	2622.6	348.5	346.4	936.6	942.4	1329.8	1333.8	1123.7	1120.5
March	2623.9	2632.0	346.2	343.2	939.7	945.4	1338.0	1343.4	1124.2	1119.8

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	108.73	108.73	15.89	15.89	9.7	9.7	70.32	70.32	22.52	22.52
November	110.90	110.40	16.29	16.17	9.8	9.8	71.61	71.24	23.01	22.99
December	110.82	110.04	16.47	16.29	11.0	11.0	71.88	70.97	22.47	22.79
January 1985	112.24	110.59	16.52	15.90	10.7	11.2	72.43	70.97	23.29	23.72
February	112.50	112.13	16.78	16.15	10.6	10.6	72.61	72.16	23.11	23.82
March	112.51	113.00*	16.73	16.23*	10.6	10.7*	72.52	72.74*	23.26	24.03*
April	113.24	114.08	16.75	16.39	10.8	10.9	73.04	73.25	23.45	24.44
May	113.73	114.66	16.79	16.54	10.9	11.0	73.32	73.48	23.62	24.64
June	114.17	114.72	16.93	16.65	10.8	10.9	73.56	73.65	23.68	24.42
July	114.83	115.34	16.96	16.81	10.8	10.9	73.93	74.08	23.94	24.45
August	115.30	115.56	17.14	16.93	10.7	10.8	74.29	74.38	23.87	24.25
September	115.23	115.45	16.84	16.90	10.7	10.6	74.65	74.72	23.74	23.83
October	115.98	115.97	17.49	17.04	10.6	10.6	74.83	75.06	23.66	23.87
November	116.87	116.45	17.91	17.19	10.5	10.5	75.23	75.53	23.73	23.73
December	117.12	117.01	17.91	17.28	10.4	10.5	75.63	75.92	23.58	23.81
January 1986	117.62	117.23	18.10	17.43	10.3	10.3	76.05	76.32	23.47	23.48
February	118.27	118.06	17.99	17.55	10.4	10.4	76.54	76.69	23.74	23.82
March	118.25	117.92	18.29	17.62	10.1	10.2	76.80	76.94	23.16	23.36

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	1.534	1.564	0.963	0.979	1.418	1.436	318.8	317.9	194.7	194.1
November	1.552	1.600	1.001	1.043	1.591	1.613	322.2	316.4	196.4	192.9
December	1.567	1.630	1.040	1.112	1.588	1.627	326.4	318.4	198.3	193.1
January 1985	1.552	1.841	1.026	1.065	1.508	1.676	323.9	324.9	196.3	196.0
February	1.615	1.638	1.062	1.121	1.493	1.598	326.4	325.1*	197.6	195.5*
March	1.684	1.794*	1.107	1.121*	1.526	1.580*	329.2	331.3	199.0	198.4
April	1.741	1.868	1.139	1.163	1.584	1.663	334.0	337.6	201.2	201.4
May	1.859	1.874	1.163	1.192	1.649	1.692	338.3	341.7	202.9	203.2
June	1.935	1.864	1.187	1.183	1.738	1.647	343.7	350.5	205.3	207.4
July	1.926	1.849	1.195	1.190	1.759	1.645	346.2	354.3	206.1	208.8
August	1.908	1.817	1.203	1.171	1.742	1.629	348.4	355.5	206.6	208.7
September	1.761	1.759	1.178	1.142	1.664	1.603	350.5	355.7	207.3	208.1
October	1.754	1.714	1.143	1.096	1.627	1.582	352.7	355.2	207.5	207.1
November	1.738	1.661	1.103	1.068	1.605	1.543	353.5	354.4	207.0	206.0
December	1.722	1.637	1.072	1.069	1.586	1.526	354.0	353.2	206.2	204.6
January 1986	1.738	1.619	1.095	1.051	1.593	1.483	354.3	353.1	205.5	203.8
February	1.692	1.561	1.098	1.018	1.546	1.392	353.8	353.0	204.4	202.9
March	1.640	1.585	1.056	1.043	1.493	1.419	354.0	352.2	203.6	201.5

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	126.8	126.0	56.9	56.7	135.1	135.2
November	130.7	127.6	56.9	56.2	134.6	132.6
December	132.3	130.8	58.0	56.2	136.0	131.5
January 1985	131.7	134.3	57.2	57.0	135.0	133.6
February	133.0	134.0*	57.8	57.0*	135.6	134.1*
March	134.6	136.3	58.5	58.5	136.1	136.5
April	136.2	137.8	58.5	59.3	139.3	140.5
May	137.9	139.2	58.1	59.9	142.3	142.6
June	139.6	140.5	58.9	60.3	145.2	149.7
July	140.3	141.3	59.0	60.8	146.9	152.2
August	141.2	142.1	59.2	61.2	148.0	152.2
September	142.0	142.8	59.4	61.7	149.1	151.2
October	143.5	143.5	59.9	61.9	149.3	149.8
November	144.7	143.8	60.5	62.3	148.3	148.3
December	145.6	144.3	61.2	62.7	147.2	146.2
January 1986	147.0	145.1	61.2	62.5	146.1	145.5
February	147.7	145.3	61.0	63.1	145.1	144.6
March	148.5	145.8	61.5	63.3	144.0	143.1

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	286.4	286.4	96.07	96.07	25.38	25.38	26.54	26.54
November	285.5	285.8	104.04	104.04	27.13	27.13	27.29	27.29
December	286.4	285.4	101.89	101.99	25.75	26.62	27.76	28.68
January 1985	287.2	284.9	103.19	104.99	26.62	23.14	27.56	25.64
February	288.0	285.2*	105.66	104.74	27.43	29.98	27.71	26.27
March	289.3	286.1	105.92	103.96*	27.78	28.73*	27.87	27.11*
April	290.9	287.0	107.16	104.28	27.95	28.21	27.73	27.43
May	292.2	288.4	108.05	105.42	28.04	28.76	27.66	27.72
June	294.2	290.3	107.65	107.11	27.75	29.15	27.58	28.05
July	296.3	292.4	107.21	107.44	27.53	29.27	27.46	28.21
August	298.2	294.5	105.93	107.69	27.26	29.23	27.48	28.37
September	300.3	296.6	105.88	107.22	27.46	28.96	27.45	28.63
October	301.6	298.7	104.29	106.86	26.89	28.81	27.26	28.72
November	303.9	300.5	105.08	106.59	26.98	28.73	27.30	28.89
December	306.5	302.6	108.35	106.84	27.53	28.56	27.35	28.74
January 1986	308.3	305.0	108.52	107.29	27.38	28.71	27.36	28.70
February	310.1	307.1	108.95	107.02	27.26	28.14	27.33	28.29
March	312.2	309.3	108.16	106.91	27.05	27.93	27.35	28.11

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	563.8	563.8	6.35	6.35	164.5	164.4	81.5	81.4
November	564.2	565.0	6.28	6.28	165.2	164.8	81.6	81.4
December	566.4	566.5	6.43	6.62	166.2	165.0	81.9	81.3
January 1985	565.8	568.4	6.58	6.52	167.2	165.5	82.2	81.4
February	569.2	569.6*	6.71	6.79	168.1	164.7	82.4	80.7
March	573.2	571.9	6.85	6.83*	169.0	165.5*	82.7	81.0*
April	575.9	574.8	6.93	6.92	169.6	165.6	82.8	80.9
May	579.3	578.3	6.99	6.99	170.3	166.2	83.0	81.1
June	582.0	582.3	6.96	7.16	171.0	167.0	83.2	81.3
July	585.4	586.4	7.11	7.22	171.3	167.3	83.2	81.3
August	588.8	590.6	7.24	7.30	171.5	167.5	83.1	81.2
September	592.9	594.7	7.37	7.49	171.3	167.9	82.9	81.2
October	595.7	598.3	7.45	7.45	171.0	167.7	82.6	81.0
November	599.3	600.1	7.53	7.61	170.7	167.6	82.3	80.8
December	603.6	603.1	7.48	7.70	170.4	167.9	81.9	80.8
January 1986	607.5	606.7	7.69	7.78	170.4	168.1	81.6	80.7
February	610.1	611.0	7.83	7.84	169.8	168.2	81.3	80.6
March	613.3	615.2	7.98	8.05	169.5	168.0	81.0	80.4

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	314.6	314.6	290.9	290.9	323.2	323.2	225.60	225.75
November	315.3	315.3	292.4	292.4	323.8	323.8	225.95	226.25
December	315.8	315.9	292.7	292.6	323.0	323.0	226.16	226.30
January 1985	316.4	316.5	292.1	292.6	322.3	322.3	226.93	227.96
February	317.1	317.5	292.7	292.1	322.8	321.7	227.81	228.98
March	317.8	319.1*	293.2	293.9*	323.2	323.3*	228.66	229.63
April	318.8	320.0	293.5	294.7	324.0	324.3	229.11	230.19
May	319.9	320.7	294.1	295.1	324.0	324.4	229.38	230.51
June	320.8	321.3	294.7	295.3	324.9	325.0	229.74	231.12
July	321.7	322.3	295.3	296.0	326.1	325.8	230.58	231.85
August	322.9	323.4	295.7	296.6	327.8	326.5	231.59	232.76
September	323.8	324.2	296.4	296.5	328.0	326.7	232.61	233.67
October	325.1	325.3	296.9	297.8	329.6	329.2	233.42	234.54
November	326.5	326.2	297.5	298.5	329.9	329.5	234.17	235.37
December	327.9	327.5	298.3	299.5	329.9	330.1	234.92	236.36
January 1986	329.1	328.8	299.0	300.6	331.1	331.3	235.84	237.28
February	330.4	329.9	299.9	301.6	332.5	332.6	236.78	238.18
March	331.7	331.4	301.0	302.3	333.9	334.0	237.75	239.25

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	222.9	222.9	178.4	178.4	219.6	219.8	241.4	241.3	163.7	163.7
November	223.0	223.0	178.4	178.5	219.2	219.2	242.3	242.3	164.1	164.0
December	222.9	222.6	178.4	178.2	219.2	219.0	242.7	242.4	164.6	164.9
January 1985	223.5	224.1	179.0	178.8	219.0	220.2	243.6	244.1	165.0	165.8
February	224.3	225.1*	179.3	179.3*	219.4	221.5*	244.8	245.0*	165.2	166.3*
March	225.1	225.8	179.4	179.9	219.9	222.1	245.9	245.9	165.4	167.0
April	225.5	226.4	179.7	180.0	220.3	222.8	246.8	246.8	166.0	167.6
May	225.8	226.7	179.8	180.2	220.0	222.6	247.5	247.6	166.7	168.2
June	226.2	227.4	179.7	180.5	220.1	223.0	248.2	248.5	167.4	169.0
July	226.9	228.1	180.1	180.8	220.8	223.5	249.3	249.6	168.0	169.7
August	227.8	229.0	180.7	181.1	221.3	224.2	250.4	250.7	168.6	170.3
September	228.6	229.9	181.3	181.4	221.9	224.9	251.6	251.7	169.1	170.9
October	229.3	230.7	182.0	181.8	222.7	225.5	252.4	252.8	170.0	171.5
November	230.2	231.5	181.5	182.3	223.6	226.1	253.3	253.7	170.8	172.0
December	231.1	232.4	181.5	182.6	224.5	226.9	254.2	254.9	171.7	172.6
January 1986	232.0	233.3	182.1	182.9	225.1	227.6	255.4	256.0	172.4	173.3
February	232.7	234.1	182.8	183.4	225.8	228.3	256.6	257.1	173.1	174.0
March	233.4	235.1	183.5	183.9	226.5	229.0	257.8	258.2	173.9	174.8

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	-8.37	-9.18	164.5	164.0	3721	3724	1649	1650	1.5	0.8
November	-8.94	-9.94	166.6	164.8	3753	3763	1661	1663	1.0	0.6
December	-6.24	-8.20	167.1	163.9	3784	3790	1673	1675	3.2	4.0
January 1985	-7.96	-10.29	168.5	166.7	3812	3823	1680	1677	0.3	2.3
February	-8.83	-11.68*	169.8	166.7*	3832	3830	1682	1673	-1.6	1.4
March	-9.69	-11.93	169.9	167.4	3857	3863	1687	1682	-0.7	4.8
April	-9.18	-12.15	170.8	168.0	3883	3887	1695	1689	2.7	6.6
May	-8.73	-11.94	171.8	168.2	3903	3910	1702	1696	5.8	4.3
June	-9.47	-12.11	172.1	168.0	3924	3934	1708	1702	6.8	3.7
July	-9.56	-11.83	171.7	168.6	3947	3956	1712	1706	9.2	5.8
August	-9.78	-11.99	171.3	169.5	3969	3975	1714	1708	10.6	7.9
September	-9.89	-11.46	171.4	169.3	3992	3993	1716	1709	11.9	9.3
October	-9.93	-11.29	170.8	169.6	4009	4012	1718	1711	10.9	11.6
November	-9.74	-11.52	171.3	169.3	4030	4031	1727	1713	10.3	10.9
December	-9.30	-11.17	172.9	170.2	4052	4049	1725	1713	10.5	11.3
January 1986	-9.59	-10.46	173.2	170.3	4074	4070	1727	1715	11.6	11.8
February	-9.68	-10.44	173.0	170.0	4093	4094	1729	1719	12.2	12.2
March	-9.78	-10.67	172.6	169.4	4112	4113	1730	1719	12.8	12.7

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	214.4	214.7	545.5	548.3	2317.4	2318.7	9.99	9.99	9.87	9.87
November	216.1	216.1	549.3	553.8	2346.1	2345.7	9.43	9.43	8.81	8.81
December	217.3	217.4	553.9	558.5	2375.3	2371.4	8.38	8.38	8.28	8.28
January 1985	219.0	218.4	557.2	562.7	2393.8	2398.3	8.35	8.35	8.05	8.00
February	220.0	219.6*	562.8	569.3	2412.6	2419.3	8.56	8.50	8.43	8.39
March	221.1	222.1	568.3	571.6*	2431.2	2436.2*	9.07	8.67*	8.82	8.93*
April	222.8	221.9	571.7	574.7	2450.8	2453.3	9.23	8.93	9.03	9.26
May	224.5	223.7	573.6	581.6	2467.4	2477.8	9.20	9.28	8.86	9.38
June	226.1	225.3	575.5	583.5	2484.0	2492.7	9.21	9.67	8.98	9.55
July	227.0	226.5	579.8	585.1	2499.3	2507.7	9.58	10.15	9.27	9.96
August	227.9	227.7	583.2	588.1	2519.4	2527.8	9.96	10.28	9.76	10.03
September	228.8	229.0	587.6	590.8	2539.6	2545.5	9.92	10.22	9.89	9.97
October	230.2	229.9	590.7	593.6	2555.2	2565.9	9.99	10.06	9.72	9.94
November	231.6	230.8	593.6	596.6	2573.5	2583.9	9.95	9.88	9.68	9.73
December	233.0	232.1	596.4	599.5	2592.1	2604.6	9.91	9.72	9.63	9.65
January 1986	234.0	233.4	599.1	602.6	2606.5	2623.4	9.78	9.53	9.49	9.27
February	235.1	234.5	601.4	604.5	2618.4	2639.1	9.63	9.51	9.23	9.22
March	235.9	235.5	602.8	606.4	2630.9	2654.9	9.47	9.39	9.16	9.15

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	12.63	12.63	10.25	10.25	10.12	10.12	10.38	10.38	12.58	12.58
November	12.29	12.29	10.17	10.17	9.03	9.03	9.18	9.18	11.77	11.77
December	12.13	12.13	9.95	9.95	8.44	8.44	8.60	8.60	11.06	11.06
January 1985	12.08	12.08	9.51	9.42	8.02	8.03	8.20	8.14	10.50	10.62
February	11.83	12.13	9.21	9.53*	8.43	8.54	8.65	8.69	10.50	10.50
March	11.91	12.62*	9.29	9.78	9.16	8.98*	9.32	9.17*	10.50	10.50*
April	12.06	12.74	9.47	9.92	9.25	9.24	9.46	9.44	10.93	10.78
May	12.17	12.93	9.58	10.12	9.16	9.39	9.29	9.56	11.12	11.00
June	12.29	13.07	9.69	10.27	9.20	9.68	9.43	9.89	11.25	11.33
July	12.35	13.11	9.76	10.29	9.53	9.93	9.77	10.15	11.38	11.67
August	12.32	13.22	9.73	10.43	9.85	10.15	10.08	10.42	11.75	12.00
September	12.40	13.15	9.81	10.32	9.93	10.19	10.21	10.56	11.75	12.00
October	12.46	13.01	9.97	10.17	9.96	10.02	10.25	10.36	11.75	12.00
November	12.52	12.85	10.04	10.02	9.98	9.79	10.28	10.05	11.75	11.79
December	12.49	12.66	9.99	9.85	9.98	9.65	10.25	9.94	11.75	11.75
January 1986	12.36	12.43	9.86	9.70	9.84	9.48	10.09	9.79	11.75	11.62
February	12.26	12.40	9.69	9.65	9.76	9.43	9.96	9.75	11.75	11.50
March	12.31	12.36	9.70	9.58	9.57	9.36	9.73	9.68	11.75	11.50

Fore. = February Forecast
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* = This item and those beyond it are projections.

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MONTHLY PROJECTIONS
April 1985

Dr. Donald Ratajczak, Director
For Release: April 23, 1985

GASOLINE PRICES, REFUND DELAYS, AND OHIO DISCOURAGE CONSUMER

Normally, the economy would show a rather robust rebound in March from the weather-induced weakness in economic activity during February. In fact, construction spending rebounding smartly. Housing starts grew by more than 16%, while a surge of more than 10% in housing permits suggests that more than 1.9 million starts will be achieved in the second quarter.

However, the consumer sharply reduced spending activity in March. Some of this spending reduction was the result of a shift toward mild weather in March following unusually cold weather conditions in earlier months. This caused the consumption of utility services to fall, leading to a surprising lack of growth in the service component in the March outlays. More significant growth in service expenditures can be anticipated in the months ahead. However, spending also was surprisingly weak for automobiles and most nondurables. Part of this spending warriness certainly reflects the delay in distributing tax refund checks. The slump in purchases of nondurables almost certainly was intensified by the absence of timely refund receipts.

Nevertheless, not all the sluggishness in consumer activity can be related to tax refund problems. The decline in automobile purchases appears to reflect consumer uncertainty about automobile prices now that Japan has announced a significant increase in shipments to the United States. Until more Japanese automobiles arrive and the consumer can see what the impact of these shipments will have upon automobile availability and pricing, sales are expected to be more sluggish than normally would develop in the current economic environment. Thus, the automobile component could remain sluggish through the second quarter.

Production rebounded slightly in March to make up for weather delays that occurred in February. However, consumers left many goods on the shelves, causing a significant rebound in inventories. Indeed, the first quarter estimates of GNP probably will be revised upward when inventory dated for March are more complete. (Certainly, GNP rising only 1.3% at the same time that industrial production increased 1.2% and hours worked in the private economy expanded 2.4% strongly suggests that the preliminary numbers are underestimating economic strength. Otherwise, the service and construction industries would appear to be growing no more rapidly than goods production, a condition that certainly does not hold.) With this buildup of inventories, production gains will remain relatively sluggish through the first part of the second quarter. However, refund checks should begin flowing to households at the end of April and in May. Because seasonal factôrs will not be anticipating the increase activity resulting from this improved household income, seasonally adjusted gains in consumer activity will appear to be relatively robust. Thus, a rebound in economic activity during the second quarter appears to be almost certain.

The refund problem also has distored monetary aggregates. Normally, checkable deposits rise sharply in March and early April as those receiving refunds wonder what they should do with this income. Because of the IRS computer problems, however, the rebound in checkable deposits will occur later. Thus, the money stock should grow relatively vigorously during the latter part of April and in May. Unless the Federal Reserve accommodates this growth and provides ample reserves to meet an anticipated rebound in loan activity later in the second quarter, interest rates will tend to rise.

The Federal Reserve currently is concerned about the sluggish nature of the economy. A week ago the Central Bank aggressively supplied reserves, leading some commentators to believe that the Federal Reserve had eased. More recently, however, some draining activity by the Federal Reserve suggests that the magnitude of ease was not substantial. Indeed, although conditions currently are favorable for a decline in the prime rate, conditions soon will shift toward an environment where the Federal Reserve will be debating whether some tightening activity is necessary. In the first place, the dollar has fundamentally peaked and is beginning to decline in a fundamental and long-term fashion. We anticipate that another 10% reduction in the value of the dollar will be achieved during the second half of 1985. This will have minimal impact upon inflation and the trade deficit in 1985, but it will be a factor in generating inflationary pressures and in improving the current manufacturing imbalance during 1986.

Second, increasing economic activity, as revealed by anticipated rebounds in many indicators during April and May should reduce the Federal Reserve concern that a recession is imminent.

Third, a temporary surge in inflationary pressures is beginning to develop as a result of gasoline prices. Indeed, these price increases already may have added to the apprehension of consumers. As a result, the CPI is expected to grow nearly 5% at annual rates during the second quarter. The major cause for this inflationary pressure is the significant discrepancy that developed between product prices of petroleum and crude petroleum prices during the fall. Basically, the refiners and distributors are trying to build back profit margins that erroded during that earlier period. As Saudia Arabia apparently is sharply reducing is export of petroleum and as a harsh winter has significantly reduced the inventories of petroleum products, these attempts to enhance profit margins appear to be sticking.

Fourth, the surge in checkable deposits almost certainly will cause most monetary aggregates to move above Federal Reserve targets even when compared with the tunnel technique. Thus, the four major determinants of Federal Reserve policy all will be pointing toward less ease before the end of the second quarter.

Finally, even with an upward revision in GNP in later reports, productivity has declined signficantly in the first quarter. In the preliminary report, unit labor cost in the private economy rebounded by more than 6%. Although some of this rapid increase in labor cost is being offset by declining interest charges, there has been further errosion in corporate profitability. Thus, many stock market analysts are rapidly reducing their estimates of earning potential for major issues on the stock market. This suggests that the stock market can only hold its own during the time that interest rates are falling and will be forced to retreat when interest rates begin to rise. The 1300 barrier on the Dow Jones index is certainly formidable and probably will not be breeched in the next two years.

Quarterly Profile of GNP

	1984-4	1985-1	1985-2	1985-3	1985-4	1986-1
Real:	4.3	1.3	4.1	4.8	2.1	1.9
Price:	2.8	5.3	3.5	3.5	3.8	4.8
Nominal:	7.1	6.7	7.7	8.4	6.0	6.8

Monthly Statistical Highlights for April 1985

Payroll employment +215,000; index of hours worked +0.3%; household employment +238,000; civilian unemployment rate 7.2%; personal income +0.6%; savings rate 5.7%; personal consumption +1.1%; retail sales +1.7%; auto sales 10.6 million; housing starts +2.3%; housing permits -1.2%; construction expenditures +1.7%; business inventories +0.3%; orders for durable goods +0.5%; orders for nondefense capital goods +1.1%; industrial production +0.4%; CPI +0.3%; PPI +0.4%; consumption deflator +0.4%; leading indicators +0.4%; real GNP +7.4%; M1 +4.3%; M2 +6.8%.

Monthly Statistical Highlights for May 1985

Payroll employment +227,000; index of hours worked +0.3%; household employment +264,000; civilian unemployment rate 7.1%; personal income +0.6%; savings rate 6.1%; personal consumption +0.9%; retail sales +1.2%; auto sales 10.8 million; housing starts +2.6%; housing permits +1.6%; construction expenditures +1.1%; business inventories +0.4%; orders for durable goods +0.7%; orders for nondefense capital goods +2.0%; industrial production +0.4%; CPI +0.3%; PPI +0.2%; consumption deflator +0.3%; leading indicators +0.4%; real GNP +5.9%; M1 +10.7%; M2 +10.0%.

COMMENTARY

Employment - Employment and hours worked rebounded, as expected during March. Indeed, the index of hours worked increased 0.7%, although hours were revised downward for January and February. However, all the strength was in the construction and service sectors. Manufacturing continued to limp along, as confirmed by the 0.3% gain in industrial production reported later in the month. According to initial unemployment claims, the unemployment rate could fall slightly in April as further gains in employment are expected. One of the surprising discrepancies in the March employment statistics, however, was the 70,000 increase in retail trade payrolls. According to retail sales and outlays, actual sales volumes fell significantly in the month. Either the retail component will show some decline in April, or seasonal distortions may have slipped into the spending reports.

The strength in the service economy also is being revealed by greater increases in the hourly earnings index, especially in services, than anticipated. This index is now 3.4% above previous year levels, and has decidedly increased from its year-over-year low point during the fall. Virtually all the acceleration, however, is in the financial and service components.

Personal Income & Outlays - The 0.5% decline in outlays during March confirmed the 1.9% drop in retail sales that was reported earlier. Because of the delays in sending refund checks, nearly $60 billion at annual rates has been added to tax liability for the month of March relative to normal. This accounts for the dramatic drop to 4.0% in the savings rates during February and March. It also may have been a factor in restraining purchases of nondurable goods. If so, when the refunding problem is resolved, a rebound both in savings and in outlays should develop. This is anticipated for April and May.

Personal income still is being adversely affected by declining farm incomes and reductions in interest receipts. Because interest rates have continued to fall, interest earnings should once again fall in April. With farm prices estimated to have declined by more than 2% in April, further declines are expected in that component as well. On the other hand, income gains for nonfarm proprietors are surprisingly strong and appear to be incompatible with the changes in profitability developing at the corporate level. Of course, this may once again indicate that the service economy truly is outperforming goods-producing industries, which are unusually heavily weighted in the corporate figures.

Construction - Housing rebounded even more significantly than anticipated. Moreover, housing permits for other than single family homes exceeded 800,000 in March. This suggests that rental units could grow close to 800,000 during the second quarter. It still appears that fears about tax reform are significantly encouraging early construction of rental properties. Declining interest rates should encourage further expansion of single-family activity into the summer months. Although higher interest rates later in the year could impact on single-family sales, it now seems almost certain that more than 1.1 million single-family units will be constructed in 1985.

Construction expenditures are expected to continue growing rapidly in March and April as residential construction and public construction rebounds from weather-induced slowing. Nonresidential construction is expected to continue growing rapidly into the fall. One surprise is the return to price weakness for the construction-cost index. This will be a factor in holding down the GNP deflator during the second quarter.

Business Activity - Inventories almost certainly involuntarily increased during March. This will generate sluggish production activity during the second quarter, although much of the inventory buildup appears to be directly related to imports. Apparently, wholesalers try to increase shipments before the dollar began falling in value. This should lead to a working down of these inventories during the second quarter without significantly impacting domestic production. In fact, trade deficits probably will shrink, leading to a positive contribution from net exports during the second quarter.

The surprising surge in orders for nondefense capital goods should begin to increase shipments of those components in the second quarter. A rebound also is expected in defense shipments, following a surprising reduction in durable defense expenditures in the first quarter.

Prices - Gasoline prices will begin to be reflected in the CPI and PPI component in March and April. The impact will be smaller for the GNP deflator, as composition shifts will be reversing part of the run-up in the deflator that developed in the first quarter.

FINANCIAL MARKETS

Not only has the IRS refund problem reduced consumption and distorted monetary statistics, but it also has reduced the borrowings of the Treasury. In the past month the supply of short-term government debt instruments outstanding have declined. This has contributed to some of the interest rate weakness on short-term instruments. Because the yield curve was unusually steep before this reduced supply of instruments began to develop, the decline in short-term rates is also encouraged decline in long-term rates.

Late in the second quarter the government should sharply increase its borrowing needs. At the same time, the household sector will be accelerating its consumption activity and also will be significantly increasing mortgage holdings. The corporate sector will be offsetting some of this upward pressure on credit markets by liquidating some of the unintended inventory accumulation that developed in March. By the end of the second quarter, however, even corporate borrowings will begin rebounding. Now that the dollar has weakened in value it is unlikely that foreign investors will meet any domestic savings imbalances without significant upward interest rate movements. Thus, conditions still are in place for causing interest rates to move upward late in the second quarter and during the summer months. Much of this increase will be on the short-term debt instruments, but some rebound in long-term rates also is expected. Rates then are expected to plateau late in 1985 and could begin declining early in 1986.

Equity Markets - Although after-tax corporate profits continued to decline during the first quarter, operating profits less tax liability continued to increase. Moreover, declining interest rates should have caused a rebound in equity values. Before the sluggishness of the economy became apparent, such a rebound developed. However, current concerns about corporate earnings has restrained stock market gains. Although one last rally in the stock market is possible during the next month, rising interest rates later in the year along with renewed concerns about economic weakness late in 1985 or early in 1986 should turn equity markets downward. Thus, equity values are expected to decline to current levels during the second half of 1985.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	95154	95157	113.2	113.2	105649	105649	7.3	7.3	161.3	161.3
November	95489	95497	114.0	114.0	105932	105932	7.1	7.1	162.0	162.0
December	95798	95681	114.5	114.6	106273	106273	7.2	7.2	163.0	163.1
January 1985	95936	96045	114.6	114.6	106427	106391	7.4	7.4	163.4	162.8
February	96168	96157	114.8	114.2	106645	106685	7.4	7.3	163.9	163.8
March	96478	96538	115.0	115.0	106848	107119	7.3	7.3	164.3	164.4
April	96711	96753*	115.4	115.3*	107122	107357*	7.3	7.2*	164.8	164.9*
May	96922	96980	115.7	115.6	107583	107621	7.2	7.1	165.3	165.5
June	97100	97272	116.1	115.9	107966	107956	7.1	7.1	165.7	166.0
July	97328	97563	116.3	116.1	108158	108277	7.0	7.0	166.3	166.6
August	97564	97815	116.5	116.4	108346	108551	6.9	6.9	167.0	167.3
September	97827	98024	116.6	116.6	108528	108887	6.9	6.9	167.6	168.0
October	97949	98234	116.8	116.8	108743	109129	6.9	6.9	168.2	168.6
November	98067	98401	116.9	116.9	108936	109318	7.0	6.9	168.7	169.3
December	98185	98526	117.1	117.0	109124	109493	6.9	6.9	169.3	170.0
January 1986	98346	98653	117.2	117.2	109315	109649	6.9	7.0	169.9	170.7
February	98509	98779	117.3	117.3	109489	109804	6.9	7.0	170.8	171.5
March	98678	98736	117.2	117.2	109576	109797	7.0	7.2	171.8	172.3

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	3.082	3.079	1.831	1.831	178.9	171.6	2.636	2.633	2.458	2.462
November	3.102	3.098	1.845	1.847	169.2	164.9	2.651	2.646	2.482	2.481
December	3.118	3.112	1.863	1.865	150.5	152.5	2.661	2.655	2.511	2.502
January 1985	3.132	3.129	1.870	1.873	150.6	151.2	2.678	2.671	2.528	2.520
February	3.146	3.140	1.881	1.881	159.4	106.4	2.696	2.650	2.537	2.543
March	3.161	3.156	1.892	1.895	166.0	105.5	2.711	2.637	2.545	2.531
April	3.175	3.175*	1.903	1.906*	156.8	154.9*	2.719	2.713*	2.562	2.558*
May	3.189	3.194	1.913	1.918	152.4	166.7	2.730	2.747	2.578	2.580
June	3.204	3.210	1.924	1.930	146.3	162.6	2.741	2.760	2.595	2.597
July	3.224	3.229	1.935	1.940	147.5	145.5	2.757	2.760	2.609	2.615
August	3.245	3.250	1.945	1.953	152.2	146.9	2.774	2.776	2.622	2.629
September	3.265	3.272	1.956	1.965	156.6	150.9	2.791	2.793	2.635	2.642
October	3.280	3.289	1.965	1.975	150.7	144.5	2.800	2.804	2.649	2.660
November	3.296	3.307	1.974	1.985	146.5	145.1	2.812	2.817	2.666	2.672
December	3.311	3.324	1.983	1.996	147.4	150.8	2.831	2.834	2.684	2.683
January 1986	3.322	3.334	1.993	2.007	146.3	145.0	2.844	2.845	2.698	2.700
February	3.340	3.351	2.004	2.018	149.2	152.2	2.864	2.867	2.715	2.715
March	3.359	3.369	2.014	2.026	159.7	150.3	2.883	2.879	2.723	2.729

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CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	2374.2	2378.1	318.1	318.1	862.6	862.6	1193.5	1197.4	1065.1	1067.0
November	2396.9	2395.9	322.8	324.3	869.1	864.6	1204.9	1206.9	1074.7	1074.3
December	2424.9	2415.5	333.4	336.4	884.5	872.2	1207.1	1206.9	1088.8	1085.0
January 1985	2439.3	2432.3	332.5	331.7	886.3	875.2	1220.5	1225.4	1091.4	1085.9
February	2450.1	2454.6	333.2	337.9	888.5	882.3	1228.4	1234.4	1092.3	1093.3
March	2457.1	2441.5	334.0	329.6	887.4	876.3	1235.7	1235.6	1091.6	1083.7*
April	2473.1	2467.3*	335.8	333.7*	893.7	889.9*	1243.6	1243.7*	1096.7	1091.3
May	2487.8	2488.6	337.5	339.5	897.2	897.6	1253.1	1251.5	1101.8	1097.9
June	2501.9	2504.7	339.2	341.5	900.1	901.5	1262.6	1261.7	1106.1	1100.9
July	2515.5	2520.7	341.6	341.4	904.6	907.3	1269.3	1272.0	1108.6	1104.2
August	2529.4	2534.3	342.5	342.4	909.0	911.5	1277.9	1280.4	1110.4	1106.8
September	2538.8	2546.3	338.9	340.3	913.4	915.5	1286.5	1290.5	1110.6	1108.1
October	2552.9	2562.6	343.7	342.6	915.6	921.3	1293.6	1298.7	1113.3	1111.8
November	2571.5	2573.9	347.8	341.4	920.5	924.9	1303.2	1307.6	1117.1	1112.5
December	2584.7	2584.2	346.5	338.7	925.4	929.0	1312.8	1316.5	1118.4	1112.2
January 1986	2599.4	2599.9	347.2	340.4	930.6	934.6	1321.6	1324.9	1120.4	1114.6
February	2614.9	2613.7	348.5	341.4	936.6	939.0	1329.8	1333.3	1123.7	1115.8
March	2623.9	2626.6	346.2	341.1	939.7	942.8	1338.0	1342.7	1124.2	1116.5

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	108.73	108.73	15.89	15.89	9.7	9.7	70.32	70.32	22.52	22.52
November	110.90	110.40	16.29	16.17	9.8	9.8	71.61	71.24	23.01	22.99
December	110.82	110.04	16.47	16.29	11.0	11.0	71.88	70.97	22.47	22.79
January 1985	112.24	110.97	16.52	16.00	10.7	11.2	72.43	70.35	23.29	24.62
February	112.50	112.74	16.78	16.27	10.6	10.6	72.61	71.42	23.11	25.04
March	112.51	110.54	16.73	16.27	10.6	10.6	72.52	70.23	23.26	24.04
April	113.24	112.46*	16.75	16.45*	10.8	10.6*	73.04	71.63*	23.45	24.38*
May	113.73	113.78	16.79	16.58	10.9	10.8	73.32	72.25	23.62	24.95
June	114.17	114.34	16.93	16.71	10.8	10.8	73.56	72.56	23.68	25.07
July	114.83	114.79	16.96	16.83	10.8	10.7	73.93	73.03	23.94	24.93
August	115.30	115.26	17.14	16.93	10.7	10.7	74.29	73.37	23.87	24.96
September	115.23	115.32	16.84	16.90	10.7	10.6	74.65	73.69	23.74	24.73
October	115.98	116.07	17.49	17.06	10.6	10.6	74.83	74.16	23.66	24.85
November	116.87	116.22	17.91	17.18	10.5	10.5	75.23	74.45	23.73	24.59
December	117.12	116.21	17.91	17.27	10.4	10.3	75.63	74.78	23.58	24.16
January 1986	117.62	116.87	18.10	17.41	10.3	10.3	76.05	75.23	23.47	24.23
February	118.27	117.35	17.99	17.59	10.4	10.3	76.54	75.58	23.74	24.18
March	118.25	117.62	18.29	17.68	10.1	10.2	76.80	75.89	23.16	24.05

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CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	1.534	1.564	0.963	0.979	1.418	1.436	318.8	312.8	194.7	190.4
November	1.552	1.600	1.001	1.043	1.591	1.613	322.2	308.1	196.4	186.7
December	1.567	1.630	1.040	1.112	1.588	1.627	326.4	307.6	198.3	185.3
January 1985	1.552	1.849	1.026	1.060	1.508	1.676	323.9	316.2	196.3	189.5
February	1.615	1.631	1.062	1.123	1.493	1.636	326.4	320.6	197.6	192.3
March	1.684	1.895	1.107	1.149	1.526	1.814	329.2	326.5*	199.0	195.5*
April	1.741	1.938*	1.139	1.165*	1.584	1.793*	334.0	332.2	201.2	198.6
May	1.859	1.988	1.163	1.196	1.649	1.821	338.3	336.0	202.9	200.2
June	1.935	1.974	1.187	1.213	1.738	1.843	343.7	343.6	205.3	204.3
July	1.926	1.931	1.195	1.205	1.759	1.776	346.2	346.9	206.1	205.4
August	1.908	1.917	1.203	1.209	1.742	1.716	348.4	348.4	206.6	205.5
September	1.761	1.855	1.178	1.179	1.664	1.695	350.5	349.4	207.3	205.4
October	1.754	1.832	1.143	1.168	1.627	1.653	352.7	350.7	207.5	205.6
November	1.738	1.772	1.103	1.127	1.605	1.598	353.5	351.1	207.0	205.0
December	1.722	1.719	1.072	1.098	1.586	1.502	354.0	351.3	206.2	204.2
January 1986	1.738	1.651	1.095	1.073	1.593	1.493	354.3	351.2	205.5	203.2
February	1.692	1.630	1.098	1.067	1.546	1.466	353.8	350.4	204.4	202.1
March	1.640	1.589	1.056	1.046	1.493	1.428	354.0	349.5	203.6	200.7

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	126.8	125.0	56.9	56.7	135.1	131.1
November	130.7	125.7	56.9	56.5	134.6	125.9
December	132.3	128.5	58.0	56.3	136.0	122.7
January 1985	131.7	130.5	57.2	57.3	135.0	128.5
February	133.0	131.7	57.8	56.4	135.6	132.5
March	134.6	133.9*	58.5	57.8*	136.1	134.8*
April	136.2	135.4	58.5	59.2	139.3	137.6
May	137.9	136.7	58.1	59.9	142.3	139.4
June	139.6	138.2	58.9	60.5	145.2	144.9
July	140.3	139.5	59.0	60.9	146.9	146.5
August	141.2	140.3	59.2	61.3	148.0	146.8
September	142.0	141.1	59.4	61.7	149.1	146.6
October	143.5	142.6	59.9	62.2	149.3	145.9
November	144.7	143.5	60.5	62.6	148.3	145.0
December	145.6	144.6	61.2	63.0	147.2	143.7
January 1986	147.0	145.3	61.2	63.3	146.1	142.6
February	147.7	145.9	61.0	63.6	145.1	140.9
March	148.5	146.7	61.5	63.5	144.0	139.3

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	286.4	286.4	96.07	96.07	25.38	25.38	26.54	26.54
November	285.5	285.8	104.04	104.04	27.13	27.13	27.29	27.29
December	286.4	285.4	101.89	101.74	25.75	26.62	27.76	28.68
January 1985	287.2	284.7	103.19	104.99	26.62	23.14	27.56	25.64
February	288.0	285.7	105.66	103.69	27.43	29.50	27.71	26.31
March	289.3	286.3*	105.92	104.63*	27.78	27.42*	27.87	26.82*
April	290.9	287.2	107.16	105.16	27.95	27.73	27.73	27.19
May	292.2	288.5	108.05	105.93	28.04	28.29	27.66	27.43
June	294.2	290.2	107.65	104.82	27.75	28.01	27.58	27.65
July	296.3	292.1	107.21	105.46	27.53	28.07	27.46	27.92
August	298.2	293.9	105.93	105.69	27.26	27.89	27.48	28.13
September	300.3	295.8	105.88	106.23	27.46	27.86	27.45	28.05
October	301.6	297.8	104.29	106.72	26.89	27.85	27.26	28.13
November	303.9	300.0	105.08	106.59	26.98	27.71	27.30	27.95
December	306.5	302.3	108.35	107.12	27.53	27.89	27.35	28.02
January 1986	308.3	304.6	108.52	106.83	27.38	27.70	27.36	27.89
February	310.1	307.0	108.95	105.76	27.26	27.53	27.33	27.71
March	312.2	309.3	108.16	105.62	27.05	27.24	27.35	27.56

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	563.8	563.8	6.35	6.35	164.5	164.4	81.5	81.4
November	564.2	565.0	6.28	6.28	165.2	164.8	81.6	81.4
December	566.4	568.5	6.43	6.62	166.2	165.0	81.9	81.3
January 1985	565.8	574.6	6.58	6.52	167.2	165.2	82.2	81.2
February	569.2	576.9	6.71	6.81	168.1	164.9	82.4	80.8
March	573.2	579.8	6.85	6.89	169.0	165.4*	82.7	80.8*
April	575.9	581.5	6.93	6.95	169.6	166.1*	82.8	80.9*
May	579.3	584.1	6.99	7.03	170.3	166.7	83.0	81.1
June	582.0	587.2	6.96	7.11	171.0	167.2	83.2	81.2
July	585.4	590.7	7.11	7.21	171.3	167.8	83.2	81.3
August	588.8	593.8	7.24	7.17	171.5	168.5	83.1	81.5
September	592.9	598.0	7.37	7.29	171.3	169.1	82.9	81.6
October	595.7	601.0	7.45	7.38	171.0	169.6	82.6	81.7
November	599.3	604.8	7.53	7.53	170.7	169.9	82.3	81.7
December	603.6	608.7	7.48	7.61	170.4	170.2	81.9	81.7
January 1986	607.5	612.4	7.69	7.72	170.4	170.5	81.6	81.8
February	610.1	616.1	7.83	7.93	169.8	170.6	81.3	81.7
March	613.3	620.4	7.98	8.09	169.5	170.3	81.0	81.4

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	314.6	314.6	290.9	291.0	323.2	323.4	225.60	225.75
November	315.3	315.2	292.4	292.0	323.8	323.8	225.95	226.25
December	315.8	316.0	292.7	292.5	323.0	323.0	226.16	226.30
January 1985	316.4	316.6	292.1	292.4	322.3	323.2	226.93	228.23
February	317.1	317.7	292.7	292.1	322.8	322.5	227.81	228.96
March	317.8	319.3	293.2	292.7	323.2	322.6	228.66	229.84
April	318.8	320.4*	293.5	293.9*	324.0	323.9*	229.11	230.43
May	319.9	321.3	294.1	294.6	324.0	325.5	229.38	230.93
June	320.8	322.2	294.7	295.5	324.9	326.5	229.74	321.60
July	321.7	323.3	295.3	296.3	326.1	327.1	230.58	232.29
August	322.9	324.3	295.7	296.9	327.8	328.1	231.59	232.93
September	323.8	325.2	296.4	297.2	328.0	327.8	232.61	233.67
October	325.1	326.2	296.9	298.4	329.6	330.1	233.42	234.30
November	326.5	327.5	297.5	299.4	329.9	330.5	234.17	235.13
December	327.9	328.8	298.3	300.6	329.9	331.3	234.92	236.07
January 1986	329.1	330.1	299.0	301.7	331.1	332.6	235.84	236.98
February	330.4	331.3	299.9	302.9	332.5	334.0	236.78	237.91
March	331.7	332.6	301.0	304.0	333.9	335.4	237.75	238.91

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	222.9	222.9	178.4	178.4	219.6	219.8	241.4	241.3	163.7	164.3
November	223.0	223.0	178.4	178.5	219.2	219.2	242.3	242.3	164.1	165.0
December	222.9	222.6	178.4	178.2	219.2	219.0	242.7	242.4	164.6	166.0
January 1985	223.5	224.0	179.0	178.1	219.0	220.0	243.6	244.2	165.0	166.9
February	224.3	224.5	179.3	179.4	219.4	219.9	244.8	245.1	165.2	166.7
March	225.1	225.3*	179.4	179.9*	219.9	220.6*	245.9	245.5*	165.4	167.0*
April	225.5	226.1	179.7	180.4	220.3	221.4	246.8	246.6	166.0	167.3
May	225.8	226.7	179.8	180.8	220.0	221.9	247.5	247.5	166.7	167.8
June	226.2	227.5	179.7	181.2	220.1	222.4	248.2	248.8	167.4	168.2
July	226.9	228.3	180.1	181.5	220.8	223.0	249.3	249.8	168.0	168.9
August	227.8	229.0	180.7	181.9	221.3	223.5	250.4	250.7	168.6	169.5
September	228.6	229.8	181.3	182.3	221.9	224.1	251.6	251.6	169.1	170.1
October	229.3	230.5	182.0	182.6	222.7	224.7	252.4	252.6	170.0	170.6
November	230.2	231.4	181.5	182.8	223.6	225.4	253.3	253.7	170.8	171.3
December	231.1	232.4	181.5	183.3	224.5	226.2	254.2	254.8	171.7	172.0
January 1986	232.0	233.3	182.1	183.9	225.1	227.0	255.4	255.9	172.4	172.8
February	232.7	234.3	182.8	184.4	225.8	227.9	256.6	257.1	173.1	173.4
March	233.4	235.3	183.5	185.0	226.5	228.8	257.8	258.2	173.9	174.1

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	-8.37	-9.18	164.5	164.0	3721	3724	1649	1650	1.5	0.8
November	-8.94	-9.94	166.6	164.8	3753	3769	1661	1666	1.0	0.6
December	-6.24	-8.20	167.1	164.0	3784	3784	1673	1672	3.2	4.0
January 1985	-7.96	-10.29	168.5	166.4	3812	3814	1680	1671	0.3	2.3
February	-8.83	-11.45	169.8	167.5	3832	3814	1682	1666	-1.6	0.8
March	-9.69	-11.50*	169.9	168.2*	3857	3832	1687	1667	-0.7	-0.2
April	-9.18	-10.76	170.8	168.9	3883	3865	1695	1677	2.7	2.3
May	-8.73	-11.48	171.8	169.5	3903	3891	1702	1685	5.8	5.2
June	-9.47	-11.22	172.1	169.8	3924	3920	1708	1693	6.8	6.3
July	-9.56	-11.73	171.7	170.4	3947	3949	1712	1700	9.2	6.0
August	-9.78	-11.41	171.3	170.8	3969	3973	1714	1706	10.6	5.7
September	-9.89	-10.69	171.4	170.5	3992	3991	1716	1708	11.9	6.0
October	-9.93	-10.55	170.8	170.7	4009	4013	1718	1713	10.9	7.8
November	-9.74	-10.38	171.3	170.3	4030	4031	1727	1714	10.3	8.9
December	-9.30	-11.02	172.9	170.6	4052	4046	1725	1714	10.5	10.2
January 1986	-9.59	-10.82	173.2	170.0	4074	4067	1727	1716	11.6	11.7
February	-9.68	-10.55	173.0	169.7	4093	4086	1729	1717	12.2	11.9
March	-9.78	-10.41	172.6	169.2	4112	4108	1730	1719	12.8	13.0

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	214.4	214.7	545.5	548.4	2317.4	2318.7	9.99	9.99	9.87	9.87
November	216.1	216.1	549.3	553.9	2346.1	2345.9	9.43	9.43	8.81	8.81
December	217.3	217.4	553.9	558.7	2375.3	2371.6	8.38	8.38	8.28	8.28
January 1985	219.0	218.4	557.2	563.0	2393.8	2400.4	8.35	8.35	8.05	8.00
February	220.0	219.3	562.8	569.2	2412.6	2420.6	8.56	8.50	8.43	8.39
March	221.1	222.0	568.3	571.9	2431.2	2427.6	9.07	8.58	8.82	8.90
April	222.8	223.3*	571.7	573.9*	2450.8	2440.9*	9.23	8.21*	9.03	8.06*
May	224.5	224.5	573.6	578.8	2467.4	2460.4	9.20	8.52	8.86	8.17
June	226.1	225.8	575.5	582.6	2484.0	2476.4	9.21	9.13	8.98	8.39
July	227.0	226.6	579.8	583.7	2499.3	2491.3	9.58	9.37	9.27	8.58
August	227.9	227.7	583.2	585.6	2519.4	2508.7	9.96	9.85	9.76	8.92
September	228.8	228.7	587.6	587.8	2539.6	2526.3	9.92	10.02	9.89	9.21
October	230.2	229.8	590.7	591.3	2555.2	2546.5	9.99	10.09	9.72	9.35
November	231.6	231.0	593.6	594.8	2573.5	2566.9	9.95	9.96	9.68	9.32
December	233.0	232.1	596.4	597.7	2592.1	2587.4	9.91	9.92	9.63	9.39
January 1986	234.0	233.4	599.1	601.2	2606.5	2608.1	9.78	9.83	9.49	9.32
February	235.1	234.5	601.4	604.5	2618.4	2627.0	9.63	9.72	9.23	9.17
March	235.9	235.5	602.8	607.4	2630.9	2642.8	9.47	9.65	9.16	9.11

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1984	12.63	12.63	10.25	10.25	10.12	10.12	10.38	10.38	12.58	12.58
November	12.29	12.29	10.17	10.17	9.03	9.03	9.18	9.18	11.77	11.77
December	12.13	12.13	9.95	9.95	8.44	8.44	8.60	8.60	11.06	11.06
January 1985	12.08	12.08	9.51	9.51	8.02	8.03	8.20	8.14	10.50	10.62
February	11.83	12.13	9.21	9.53	8.43	8.54	8.65	8.69	10.50	10.50
March	11.91	12.56	9.29	9.69*	9.16	8.90	9.32	9.07	10.50	10.50
April	12.06	12.17*	9.47	9.31	9.25	8.26*	9.46	8.53*	10.93	10.50*
May	12.17	12.05	9.58	9.18	9.16	8.53	9.29	8.82	11.12	10.50
June	12.29	12.34	9.69	9.50	9.20	9.02	9.43	9.27	11.25	10.73
July	12.35	12.52	9.76	9.68	9.53	9.38	9.77	9.58	11.38	11.06
August	12.32	12.79	9.73	9.96	9.85	9.94	10.08	10.17	11.75	11.50
September	12.40	12.88	9.81	10.05	9.93	10.15	10.21	10.39	11.75	11.93
October	12.46	12.72	9.97	9.88	9.96	10.11	10.25	10.35	11.75	12.00
November	12.52	12.58	10.04	9.72	9.98	9.78	10.28	9.97	11.75	12.00
December	12.49	12.51	9.99	9.63	9.98	9.85	10.25	10.11	11.75	12.00
January 1986	12.36	12.47	9.86	9.48	9.84	9.89	10.09	10.05	11.75	12.00
February	12.26	12.36	9.69	9.43	9.76	9.76	9.96	9.98	11.75	12.00
March	12.31	12.35	9.70	9.46	9.57	9.71	9.73	9.93	11.75	12.00

Fore. = February Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

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MONTHLY PROJECTIONS
May 1985

Dr. Donald Ratajczak, Director
For Release: June 3, 1985

SLUGGISHNESS PERSISTS INTO SECOND QUARTER

A surprising decline in business inventories in March led to a downward revision in the GNP estimates for the first quarter. What made the March inventory weakness so surprising was the rapid inventory adjustment despite declining consumer activity. Indeed, both wholesalers and retailers were able to reduce their inventories even as retail sales were falling.

Of course, a temporary inventory reduction because of reduced sales anticipations ahead would have only temporary impact upon economic conditions. While some of the inventory liquidations in March may very well have reflected that condition, it appears that the wholesalers finally have decided to significantly reduce their desired inventory holdings relative to sales. Previously, the wholesalers had resisted a downward adjustment in inventories. This more fundamental shift in inventory holdings will create sluggishness for several months and should not be followed by any significant production rebound. As a result, our estimates of second quarter economic activity have been marked down sharply.

Unfortunately, sluggish economic growth in the second quarter leads to another dilemma. By April, the index of hours worked already exceeded first quarter levels by 2% at annual rates. Based upon our current projections of economic activity, this suggests that productivity has once again declined. However, it seems illogical to assume that inventorying of labor skills is intensifying at the same time that corporations are dramatically reducing their inventories of products. Our projections have not been able to resolve this dilemma. As a result, a more labor intensive production profile was assumed for the next 12 months. This leads to more significant increases in consumer spending relative to overall economic activity. To the extent that consumption is being met by foreign suppliers in a disproportionate manner to other expenditures in the domestic economy, such an income shift perpetuates high trade deficits.

Consumption should increase anyway, as a sharp increase in disposable income reflects the disbursement of tax refund checks. Normally, changes in the timing of tax disbursements should have minimal impact upon consumer activity. However, the need to provide IRAs along with a more than 20% increase in installment debt of consumers during the past year has led to a modest liquidity squeeze. Under these circumstances, the delay in tax disbursements has created some consumer shortfall, especially in nondurables and services. This sector should pick up sharply in the early summer months now that income flows are returning to normal.

The upward revision in the GNP price deflator appears to be caused by two factors. First, strong construction spending is leading to higher increases in the implicit construction cost index than originally projected. Second, consumer prices in March were more significant than anticipated. This was largely the result of gasoline prices, which are not expected to continue rebounding beyond the second quarter. Of course, significant composition shifts were also responsible for an unusually high deflator during the first quarter. These shifts could reverse themselves during the second quarter, leading to a lower deflator and a higher estimate of real GNP than currently projected.

This downward adjustment in inventory investment has led to a more dramatic downward estimate of interest rates than originally expected. While interest rates probably will not fall below current levels, at least until the latter part of 1986, when a more significant economic downturn is anticipated, no significant run-up in interest rates is expected. Given the unusual spread between short- and long-term interest rates, there is little likelihood that long-term rates will move significantly higher during the next year. Indeed, the prime rate could momentarily fall below 10% within the next month. Only a significant rebound in economic activity would lead to significantly higher interest rates under prevailing conditions. However, government policy changes that might significantly reduce the structural deficit and may also reduce investment for tax rather than economic purposes could fundamentally lower interest rates. It will also significantly generate reduced construction activity in 1986. For those reasons, no significant run-up in interest rates should be anticipated in the next two years.

Quarterly Profile of GNP

	1985-1	1985-2	1985-3	1985-4	1986-1	1986-2
Real:	0.7	2.1	4.4	3.0	2.8	1.9
Price:	5.6	3.4	3.5	3.9	4.5	4.6
Nominal:	6.4	5.3	8.2	7.0	7.4	6.5

Monthly Statistical Highlings for May 1985

Payroll employment +234,000; index of hours worked +0.2%; household employment +280,000; civilian unemployment rate 7.2%; personal income +0.4%; savings rate 6.8%; personal consumption +0.8%; retail sales +0.8%; auto sales 11.0 million; housing starts -2.6%; housing permits +2.8%; construction expenditures +1.0%; business inventories +0.3%; orders for durable goods +1.4%; orders for nondefense capital goods +6.9%; industrial production +0.3%; CPI +0.2%; PPI +0.2%; consumption deflator +0.3%; leading indicators +0.6%; real GNP +6.7%; M1 +12.3%; M2 +11.2%.

Monthly Statistical Highlights for June 1985

Payroll employment +180,000; index of hours worked +0.2%; household employment +130,000; civilian unemployment rate 7.3%; personal income +0.5%; savings rate 5.5%; personal consumption +0.5%; retail sales +0.4%; auto sales 11.0 million; housing starts +1.8%; housing permits +1.4%; construction expenditures +2.2%; business inventories +0.5%; orders for durable goods +0.2%; orders for nondefense capital goods +0.4%; industrial production +0.3%; CPI +0.2%; PPI +0.1%; consumption deflator +0.3%; leading indicators +0.5%; real GNP 5.9%; M1 +8.8%; M2 +10.1%.

COMMENTARY

Employment - The index of hours worked remained unchanged in April, a result that is consistent with the unchanged estimate of GNP for that month. However, productivity fell significantly during the first quarter, probably as a result of sales falling below anticipations. As a result, there must have been some unanticipated inventorying of labor skills. This would suggest weakness in employment during the second quarter. However, the initial unemployment claims and insured unemployment rates both suggest that payroll employment expanded vigorously in May. This vigor probably occurred despite minimal gains in construction and retail activity. Thus, some gains are anticipated in manufacturing. Under these conditions, a modest decline in the unemployment rate is possible. However, further moderation is expected in demand for labor services in June. With the possibility that the labor force could grow more than normally in that month, any decline in the unemployment rate would be transitory.

The hourly earnings index is once again behaving very modestly, showing only a 2.9% increase over previous year levels. Continued moderation in wages is anticipated through the remainder of this year.

Personal Income & Outlays - Although personal income grew in line with anticipations in April, the composition of that income gain was unsatisfactory. Retroactive pay increases for postal workers added nearly $3 billion to government payrolls. Another temporary subsidy to farmers added nearly $3 billion to farm income. The removal of this stimulus in May should lead to more sluggish gains in personal income than previously projected.

Tax refunds have created significant difficulties in estimating disposable income and personal savings. Refunds were $1.3 billion above normal in April and are expected to be more than $4 billion over normal in May. A return to normal refunds is expected late in June. Some rebound is expected in farm income in the second half of 1985, but this will be offset by minimal gains in interest income. Thus, most of the increase in personal income will need to be generated by wages and salaries during the latter part of 1985. This is why the increased labor intensity of production activity is so important to sustaining the projections of consumption that are contained in this report.

Purchases of services remained surprisingly sluggish in April. Possible liquidity constraints could have reduced activity for recreational and transportation services. More rapid rates of gain still are projected for the services component later in the year. Most of the gain in nondurables reflects price increases that are expected to abate after June. In the durables, surprising weakness developed in hardware and furniture sales in April. This appears to be temporary as orders for household durables have not begun to weaken. Therefore, some rebound is expected in those components once the liquidity pressures currently being felt by the household sector are partially relieved with the increasing flow of tax refunds.

Construction - Two surprises developed in the housing market during April. First, housing permits for multiple units slumped sharply in April, although permits could still sustain more than 700,000 units. Second, sales of single-family homes fell almost 12% to slightly over 600,000 units. More than a seven-month inventory of single-family homes is currently available. This should cause weakening both in single-family and multi-family activities in May. Also, declining mortgage rates will temporarily freeze the housing buying decisions of potential purchasers. This could lead to more sluggish housing activity into the summer months than currently projected.

A surprising degree of weakness developed for nonresidential construction in March. This appears to be a temporary phenomenon, as orders continue to rise sharply. Indeed, orders for nonresidential construction are rising almost 10%. Thus, a significant rebound is expected in construction during the next few months, although the housing component could be overestimated.

Business Activity - In addition to surprising weakness in business inventories during March and projected into April, orders have weakened significantly for nondefense capital goods. Apparently, the February surge in orders reflected the bunching of activity in that month and early March at the expense of January and, possibly, April. A rebound is expected in May, but it now appears that nondefense capital goods shipments are running above projected normal monthly orders. Obviously, no significant further growth should be expected in domestic production of capital goods. Most capital goods surveys suggest that spending will remain strong, although much of it is going abroad.

Prices - Although gasoline prices have rebounded sharply early in spring, as expected, a slowing in world energy consumption should lead to further weakness in petroleum products before the end of the year. While meat prices are expected to rebound late in 1985 and early in 1986, this further downward adjustment in energy components will lead to lower inflationary measures than originally projected. The one exception to this is the construction deflator, which is the primary reason why the GNP deflator is now estimated to be higher over the next year than in the original forecast.

FINANCIAL MARKETS

Two factors have accounted for surprising weakness in interest rates in recent months. First, the inventory liquidations that led to significant economic sluggishness have reduced credit market pressures, especially in the short end of the maturity spectrum. Second, the Federal Reserve apparently has switched policy and is now actively easing monetary restraints. The decline in the discount rate preceded declines in commercial paper rates, suggesting the Federal Reserve is trying to force rates downward. Currently, lower interest rates for commercial paper than the federal funds rate suggests that inventory liquidations are continuing. This is the major reason for revising our second quarter estimates significantly downward. However, a rebound is expected early in the third quarter. There is no evidence at this time that any rebound will be vigorous. For that reason, there is little likelihood that short-term interest rates will rise dramatically in the next year. Moreover, the unusual steepness of the yield curve at this time in the business cycle probably indicates that long-term interest rates could decline further. Given changes in policy and the prospects for a possible recession in 1986, it still appears to be appropriate to invest significantly in long-term debt instruments.

Equity Markets - Sluggishness during the second quarter has continued to lower estimates of after-tax corporate profits. However, declining interest rates appear to be sufficient to offset reduced earnings possibilities of American corporations. With a rebound in economic activity, and therefore in earnings, during the third quarter, the stock market probably should have a significant rebound potential remaining. Normally, the equity markets do not begin to anticipate recessionary conditions until a year before such conditions develop. Thus, the stock market should not begin declining to reflect the reduced earnings prospects of 1986 until late in 1985.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	96045	96045	114.6	114.6	106391	106391	7.4	7.4	162.8	162.8
February	96157	96161	114.2	114.2	106685	106685	7.3	7.3	163.8	163.8
March	96538	96514	115.0	115.3	107119	107119	7.3	7.3	164.4	164.2
April	96753	96731	115.3	115.3	107381	107357	7.3	7.3	164.8	164.4
May	96930	96965*	115.6	115.5*	107525	107637*	7.2	7.2*	165.1	164.8*
June	97119	97145	115.8	115.7	107672	107767	7.2	7.3	165.3	165.1
July	97342	97397	116.1	116.0	107913	108081	7.1	7.2	166.0	165.5
August	97559	97649	116.4	116.3	108126	108271	7.1	7.2	166.7	165.9
September	97773	97985	116.8	116.7	108408	108667	7.0	7.0	167.3	166.4
October	97992	98235	117.0	116.9	108623	108929	7.0	7.0	167.8	167.0
November	98169	98402	117.1	117.0	108820	109027	6.9	7.1	168.4	167.7
December	98334	98569	117.3	117.1	109015	109212	6.9	7.1	169.0	168.3
January 1986	98492	98737	117.4	117.3	109237	109419	6.9	7.1	169.8	169.0
February	98641	98906	117.5	117.5	109414	109628	6.8	7.0	170.7	169.7
March	98790	99158	117.6	117.7	109591	109921	6.9	6.9	171.5	170.5
April	98916	99326	117.8	117.9	109802	110130	6.9	6.9	172.0	171.1
May	99053	99578	118.0	118.1	109930	110392	6.9	6.9	172.4	171.8
June	99193	99747	118.1	118.2	110058	110611	7.0	6.9	172.8	172.5

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	3.127	3.127	1.873	1.873	151.2	147.6	2.671	2.670	2.520	2.522
February	3.140	3.140	1.881	1.881	106.4	106.3	2.650	2.650	2.543	2.544
March	3.156	3.156	1.895	1.895	105.5	101.0	2.637	2.641	2.531	2.540
April	3.175	3.174	1.906	1.907	152.1	159.9	2.711	2.717	2.559	2.557
May	3.189	3.187*	1.917	1.915*	165.4	188.0*	2.743	2.766*	2.578	2.578*
June	3.203	3.203	1.928	1.924	172.9	150.5	2.765	2.743	2.592	2.593
July	3.223	3.219	1.940	1.934	139.7	140.1	2.751	2.747	2.611	2.607
August	3.246	3.236	1.951	1.944	143.5	136.8	2.769	2.761	2.626	2.624
September	3.269	3.257	1.963	1.957	148.9	136.0	2.788	2.778	2.639	2.640
October	3.287	3.276	1.974	1.967	146.1	137.9	2.803	2.793	2.651	2.655
November	3.306	3.296	1.983	1.977	144.1	134.7	2.818	2.809	2.674	2.674
December	3.325	3.314	1.992	1.986	143.2	130.8	2.834	2.822	2.691	2.691
January 1986	3.339	3.333	2.004	1.998	143.6	138.8	2.852	2.846	2.708	2.707
February	3.359	3.354	2.017	2.010	142.5	141.9	2.866	2.864	2.724	2.722
March	3.378	3.376	2.030	2.023	142.4	148.4	2.881	2.883	2.739	2.735
April	3.392	3.387	2.037	2.034	134.9	145.1	2.892	2.893	2.757	2.748
May	3.410	3.408	2.046	2.046	135.5	147.8	2.908	2.910	2.773	2.762
June	3.428	3.426	2.055	2.056	135.2	145.2	2.924	2.924	2.789	2.779

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore	C.E.	Fore.	C.E.
January 1985	2432.3	2434.4	331.7	331.7	875.2	875.2	1225.4	1227.4	1085.9	1086.7
February	2454.6	2454.4	337.9	338.0	882.3	879.4	1234.4	1237.0	1093.3	1093.5
March	2441.5	2449.4	329.6	333.7	876.3	876.4	1235.6	1239.3	1083.7	1087.3
April	2468.2	2466.3	336.2	337.7	885.7	883.4	1246.3	1245.2	1093.1	1092.2*
May	2485.8	2486.3*	340.1	340.3*	890.2	892.4*	1255.5	1253.6*	1097.5	1098.0
June	2499.2	2499.9	340.4	342.5	894.1	895.3	1264.7	1262.1	1099.5	1101.4
July	2517.3	2513.4	342.7	341.7	899.3	899.1	1275.3	1272.6	1104.1	1103.6
August	2530.3	2529.7	343.8	344.7	902.4	903.1	1284.1	1281.9	1106.9	1107.9
September	2542.7	2544.6	344.6	346.6	905.5	906.5	1292.6	1291.5	1108.9	1111.4
October	2559.4	2558.7	346.2	347.0	911.7	911.0	1301.5	1300.7	1112.3	1114.0
November	2575.2	2576.9	347.0	350.2	916.8	917.1	1311.4	1309.6	1114.8	1118.3
December	2591.0	2592.8	345.7	350.7	922.2	922.7	1323.1	1319.4	1117.3	1121.3
January 1986	2607.6	2607.7	348.4	351.2	926.8	927.3	1332.4	1329.2	1120.1	1124.1
February	2621.7	2621.7	349.5	350.5	930.9	932.4	1341.3	1338.8	1121.8	1126.2
March	2635.8	2633.2	350.6	351.5	935.0	934.0	1350.2	1347.7	1123.5	1126.9
April	2653.3	2645.5	352.7	351.6	940.2	937.1	1360.4	1356.8	1127.1	1128.5
May	2667.8	2658.8	353.1	351.0	945.2	941.9	1369.5	1365.9	1129.5	1130.0
June	2683.1	2674.4	352.0	352.3	950.1	947.3	1381.0	1374.8	1131.6	1133.0

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	110.97	110.97	16.00	16.00	11.2	11.2	70.35	70.35	24.62	24.62
February	112.74	112.10	16.27	16.12	10.6	10.6	71.42	71.02	25.04	24.95
March	110.54	111.27	16.27	16.20	10.6	10.6	70.23	70.69	24.04	24.38
April	112.42	112.23	16.40	16.05	11.0	11.1	71.29	71.40	24.73	24.78
May	113.26	113.08*	16.48	16.23*	10.7	11.0	71.65	71.93*	25.13	24.92*
June	113.61	113.57	16.43	16.34	10.8	11.0	71.97	72.16	25.21	25.07
July	114.32	113.78	16.51	16.45	11.0	10.9	72.39	72.47	25.42	24.86
August	114.70	114.47	16.53	16.63	11.0	10.9	72.64	72.79	25.53	25.05
September	115.05	114.96	16.70	16.67	10.9	11.0	72.89	73.06	25.46	25.23
October	115.74	115.39	16.82	16.84	10.8	10.9	73.39	73.43	25.53	25.12
November	116.25	116.26	17.09	16.98	10.7	10.8	73.80	73.92	25.36	25.36
December	116.52	116.77	16.98	17.03	10.7	10.8	74.23	74.37	25.31	25.37
January 1986	117.22	117.20	17.15	17.18	10.7	10.7	74.60	74.74	25.47	25.28
February	117.69	117.53	17.24	17.22	10.6	10.6	74.93	75.15	25.52	25.16
March	118.15	117.78	17.39	17.28	10.6	10.6	75.26	75.28	25.50	25.22
April	118.83	118.04	17.49	17.37	10.6	10.5	75.68	75.53	25.66	25.14
May	119.28	118.36	17.60	17.43	10.5	10.4	76.08	75.92	25.60	25.01
June	119.54	118.94	17.44	17.46	10.5	10.4	76.48	76.35	25.62	25.13

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CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	1.849	1.849	1.060	1.060	1.676	1.635	316.2	316.4	189.5	189.6
February	1.631	1.647	1.123	1.135	1.636	1.624	320.6	323.8	192.3	194.3
March	1.895	1.883	1.149	1.171	1.814	1.741	326.5	324.2	195.5	193.9
April	1.938	1.913	1.178	1.159	1.793	1.656	329.4	328.2*	196.7	195.5
May	1.973	1.863*	1.203	1.146*	1.818	1.703*	336.2	331.4	199.9	196.7
June	1.957	1.897	1.192	1.179	1.778	1.726	342.7	338.7	202.8	200.2
July	1.959	1.915	1.217	1.203	1.783	1.749	345.5	340.8	204.0	200.6
August	1.933	1.938	1.205	1.216	1.752	1.703	348.5	342.4	205.4	200.9
September	1.905	1.906	1.196	1.198	1.694	1.685	351.1	346.4	206.5	202.7
October	1.885	1.853	1.184	1.165	1.698	1.692	354.4	347.0	207.7	202.2
November	1.853	1.811	1.163	1.147	1.662	1.594	355.9	348.0	207.8	202.1
December	1.758	1.772	1.106	1.143	1.592	1.576	356.4	347.5	207.3	201.0
January 1986	1.723	1.719	1.082	1.126	1.564	1.515	355.0	346.6	205.9	199.9
February	1.721	1.653	1.093	1.107	1.585	1.510	353.6	346.2	204.6	199.1
March	1.691	1.650	1.083	1.098	1.526	1.483	352.2	344.9	203.5	197.7
April	1.656	1.631	1.064	1.095	1.448	1.465	351.9	342.5	202.7	195.6
May	1.608	1.602	1.045	1.068	1.392	1.427	352.1	342.7	202.2	195.2
June	1.553	1.579	1.021	1.055	1.377	1.438	352.4	343.4	201.8	195.1

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	130.5	130.2	57.3	57.8	128.5	128.4
February	131.7	132.6	56.4	58.1	132.5	133.1
March	133.9	130.8	57.8	58.6	134.8	134.8
April	135.2	132.4*	58.7	59.3*	135.5	136.5*
May	136.8	134.1	59.9	59.7	139.5	137.6
June	138.3	135.8	61.0	60.2	143.4	142.7
July	139.9	136.6	60.7	60.6	144.9	143.6
August	141.7	137.8	61.0	60.5	145.8	144.1
September	143.4	140.1	60.8	60.9	146.9	145.4
October	145.1	139.6	61.5	61.1	147.8	146.3
November	146.5	140.3	61.9	61.5	147.5	146.2
December	147.8	141.7	62.3	61.3	146.3	144.5
January 1986	149.0	142.6	62.0	61.7	144.0	142.3
February	150.0	142.9	61.8	62.2	141.8	141.1
March	151.1	143.3	61.9	62.5	139.2	139.1
April	152.2	143.0	62.1	62.3	137.6	137.2
May	153.1	144.1	62.4	62.6	136.6	136.0
June	153.9	144.8	62.8	62.8	135.7	135.8

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	316.6	316.6	292.4	292.4	323.2	323.2	228.23	228.32
February	317.7	317.7	292.1	292.1	322.5	322.5	228.96	229.01
March	319.0	319.2	292.7	292.7	322.6	322.6	229.84	230.27
April	320.2	320.4	293.7	293.6	324.0	323.9	230.53	230.93
May	321.1	321.0*	294.3	294.1*	325.4	324.5*	231.42	231.59
June	322.1	321.8	295.1	294.4	326.5	325.1	232.13	232.27
July	322.9	322.7	295.6	294.7	326.7	325.3	232.91	233.08
August	323.6	323.6	295.5	295.0	326.2	325.0	233.59	233.72
September	324.3	324.6	295.4	295.2	324.2	323.4	234.27	234.31
October	325.9	325.5	296.3	295.1	326.5	325.1	235.19	235.13
November	327.5	326.5	297.0	295.3	327.6	326.0	236.13	235.93
December	329.0	327.6	297.9	295.5	328.8	326.8	237.06	236.83
January 1986	330.3	328.7	298.9	295.8	329.6	327.9	237.89	237.65
February	331.5	329.9	299.8	296.3	330.2	329.0	238.65	238.51
March	332.8	331.1	300.8	297.3	330.9	329.5	239.40	239.46
April	334.4	332.1	301.9	297.7	332.4	330.2	240.21	240.35
May	336.0	333.4	303.0	298.8	333.9	330.9	241.07	241.24
June	337.5	334.5	304.1	299.1	335.3	332.1	241.87	242.02

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	224.0	224.0	178.1	178.1	220.0	220.0	244.2	244.2	166.9	166.9
February	224.5	224.5	179.4	179.6	219.9	219.7	245.1	244.9	166.7	166.6
March	225.1	225.3	179.8	179.5	220.1	220.6	245.4	245.8	167.0	167.2
April	225.8	225.8*	180.2	179.6*	220.8	221.3*	246.5	246.6*	167.5	167.9*
May	226.5	226.4	180.2	179.7	221.4	221.9	247.7	247.5	168.2	168.5
June	227.3	227.0	180.3	179.7	222.0	222.2	248.8	248.5	169.0	169.2
July	228.0	227.7	180.4	180.0	222.5	222.6	249.9	249.6	169.4	169.9
August	228.6	228.3	180.7	180.1	222.8	222.9	250.9	250.7	169.7	170.4
September	229.3	229.0	181.0	180.0	223.2	223.3	252.0	251.8	170.0	170.9
October	230.1	229.7	181.4	180.3	224.2	223.7	253.1	252.9	170.6	171.6
November	231.0	230.4	181.4	180.7	225.0	224.4	254.2	253.9	171.3	172.2
December	231.9	231.2	181.2	180.8	225.9	225.1	255.2	255.0	171.9	172.9
January 1986	232.8	232.0	181.6	181.0	226.5	225.6	256.4	256.1	172.4	173.4
February	233.7	232.8	182.2	181.2	227.3	226.3	257.6	257.1	172.8	173.9
March	234.6	233.7	182.7	181.3	228.0	227.1	258.9	258.3	173.1	174.5
April	235.4	234.4	183.0	181.5	228.6	227.6	260.0	259.4	173.6	175.1
May	236.2	235.3	183.2	181.8	229.3	228.3	261.1	260.5	174.1	175.6
June	237.1	236.1	183.4	182.0	230.0	229.0	262.2	261.5	174.6	176.0

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	284.7	285.8	104.99	105.45	23.14	23.63	25.64	25.25
February	285.7	286.1	103.69	102.47	29.50	29.49	26.31	36.33
March	286.3	286.2	104.63	99.73	27.42	27.21	26.82	27.77
April	286.9	286.5	105.92	99.54	27.59	25.27	27.03	27.22
May	288.1	287.1*	106.38	100.93	27.68	27.01	27.26	26.93
June	290.0	288.4	106.51	101.14	27.42	27.11	27.38	27.02
July	292.3	290.0	106.89	102.13	28.13	27.38	27.56	27.25
August	293.2	291.3	106.27	102.56	28.24	27.56	27.78	27.43
September	293.6	292.8	105.42	103.36	28.02	27.71	28.01	27.61
October	294.9	293.9	104.28	103.18	27.43	27.63	28.23	27.68
November	296.5	295.0	106.07	102.46	27.92	27.38	28.36	27.55
December	297.5	295.9	107.46	102.93	28.26	27.09	28.45	27.51
January 1986	298.8	297.3	108.71	102.88	28.69	26.85	28.56	27.35
February	300.1	299.0	109.13	105.14	28.82	27.83	28.62	27.62
March	301.5	300.8	109.08	105.58	28.75	27.81	28.41	27.76
April	303.2	302.0	109.26	105.32	28.71	27.42	28.62	27.68
May	304.9	303.3	108.16	105.96	28.14	27.40	28.56	27.62
June	306.6	304.2	108.91	106.41	28.11	27.38	28.71	27.59

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	574.6	574.6	6.52	6.38	165.2	165.1	81.2	81.1
February	576.9	578.7	6.81	6.70	164.9	165.3	80.8	81.0
March	578.1	578.2	6.89	6.72	165.4	165.8	80.8	81.1
April	583.6	577.6	6.95	6.43	166.1	165.4	80.9	80.6
May	586.2	579.5	7.06	6.61	166.7	165.9*	81.0	80.6*
June	588.4	582.4	7.18	6.75	167.3	166.4	81.1	80.7
July	591.4	586.5	7.29	6.88	167.7	167.0	81.0	80.8
August	594.7	589.2	7.46	7.03	168.0	167.5	80.9	80.8
September	597.7	592.3	7.54	7.21	168.3	168.2	80.8	80.9
October	601.1	594.6	7.51	7.15	168.5	168.6	80.6	80.8
November	604.3	597.1	7.67	7.23	168.7	168.5	80.4	80.5
December	606.4	598.9	7.89	7.38	168.7	168.5	80.2	80.3
January 1986	610.2	602.2	7.95	7.55	168.7	168.8	80.0	80.3
February	612.3	606.4	8.03	7.58	168.9	168.8	79.9	80.1
March	614.7	611.1	8.10	7.69	169.4	169.2	79.9	80.2
April	617.9	614.5	8.23	7.85	170.3	169.5	80.1	80.2
May	621.3	617.8	8.34	7.83	171.5	169.8	80.4	80.2
June	626.1	620.6	8.46	7.84	172.6	169.9	80.7	80.0

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	-10.29	-10.29	166.4	166.4	3814	3810	1671	1669	2.3	1.6
February	-11.45	-11.45	167.5	167.5	3814	3816	1666	1666	0.8	0.0
March	-11.50	-11.05	168.2	167.7	3832	3825	1667	1661	-0.3	-2.3
April	-11.15	-11.85	168.5	167.4	3869	3836	1678	1661	1.7	-2.5
May	-10.81	-11.67*	169.0	168.4*	3903	3868	1687	1670	6.8	0.2
June	-10.52	-11.26	168.8	169.3	3932	3897	1694	1678	4.5	1.5
July	-10.68	-11.38	169.0	169.5	3956	3922	1699	1683	2.6	3.6
August	-11.08	-11.59	168.4	169.2	3977	3944	1703	1687	2.3	2.1
September	-11.53	-11.86	168.0	168.5	3999	3967	1707	1693	2.0	2.6
October	-11.69	-11.59	167.7	167.8	4022	3987	1710	1696	5.3	4.3
November	-11.24	-11.37	168.2	168.1	4045	4013	1713	1701	8.8	5.6
December	-11.13	-11.24	168.6	167.7	4064	4035	1714	1704	8.9	6.1
January 1986	-11.25	-10.98	169.1	168.3	4083	4059	1716	1708	10.6	7.2
February	-11.50	-11.42	169.5	168.6	4102	4084	1719	1712	12.9	7.9
March	-11.11	-10.88	169.5	168.1	4122	4109	1722	1716	13.5	9.3
April	-11.26	-10.95	169.2	167.2	4159	4130	1731	1718	14.2	9.0
May	-11.05	-10.86	168.8	166.8	4185	4148	1736	1719	14.9	8.5
June	-10.98	-10.81	168.5	166.9	4211	4169	1741	1723	13.8	9.8

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	218.4	281.2	563.0	562.7	2400.4	2398.9	8.35	8.35	8.00	8.00
February	219.3	219.2	569.2	569.4	2420.6	2420.9	8.50	8.50	8.39	8.39
March	222.0	221.9	571.9	572.1	2427.6	2428.6	8.58	8.58	8.90	8.90
April	223.1	223.3	574.6	575.0	2435.7	2427.0	8.33	8.27*	8.46	8.23
May	224.0	223.7*	577.9	580.6*	2457.3	2445.8*	8.45	7.93*	8.27	7.63*
June	224.9	225.3	581.3	584.7	2479.5	2465.4	8.43	7.66	8.25	7.51
July	226.2	226.1	584.7	585.6	2492.6	2477.7	8.72	7.92	8.72	7.88
August	227.4	227.2	587.4	588.4	2509.2	2495.9	9.25	7.98	9.04	7.92
September	228.7	228.3	589.9	591.3	2526.6	2515.7	9.83	8.13	9.23	8.01
October	230.0	229.2	592.3	593.9	2543.1	2532.9	9.65	8.08	9.29	7.88
November	231.1	230.2	595.5	596.2	2559.7	2549.1	9.68	8.29	9.25	8.03
December	232.2	231.1	598.8	598.5	2575.8	2565.5	9.52	8.16	9.22	7.94
January 1986	233.4	232.2	601.2	600.2	2592.7	2579.4	9.29	8.29	8.95	8.03
February	234.5	234.0	605.7	605.6	2610.6	2605.2	9.10	8.11	8.72	8.02
March	235.6	234.9	609.9	608.4	2628.8	2622.4	9.06	8.43	8.61	8.27
April	237.0	236.0	613.8	611.2	2647.9	2641.6	9.21	8.27	8.85	8.03
May	238.8	237.1	615.7	613.6	2664.4	2658.6	9.35	8.01	8.89	7.82
June	240.3	238.4	617.5	616.3	2681.1	2675.5	9.43	7.66	8.95	7.43

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	12.08	12.08	9.51	9.51	8.03	8.03	8.14	8.14	10.62	10.62
February	12.13	12.13	9.53	9.65	8.54	8.54	8.69	8.69	10.50	10.50
March	11.96	12.56	9.69	9.69	8.90	8.90	9.07	9.07	10.50	10.50
April	11.92	12.23	9.53	9.31*	8.42	8.37	8.63	8.49	10.50	10.50
May	12.15	11.63*	9.72	8.93	8.36	7.78*	8.49	7.91*	10.50	10.16*
June	12.37	11.40	9.92	8.82	8.38	7.52	8.56	7.65	10.50	10.00
July	12.48	11.38	10.05	8.80	8.81	8.03	8.96	8.21	10.86	10.00
August	12.60	11.24	10.14	8.68	9.32	8.15	9.47	8.36	11.27	10.00
September	12.68	11.31	10.25	8.75	9.85	8.22	9.98	8.40	11.50	10.00
October	12.72	11.15	10.21	8.59	9.62	7.96	9.79	8.13	11.50	10.00
November	12.70	11.36	10.16	8.79	9.60	8.36	9.75	8.51	11.50	10.00
December	12.68	11.24	10.09	8.69	9.47	8.09	9.59	8.30	11.50	10.00
January 1986	12.49	11.34	9.84	8.78	9.15	8.42	9.32	8.61	11.50	10.00
February	12.42	11.21	9.70	8.63	9.10	7.96	9.26	8.12	11.23	10.00
March	12.36	11.48	9.59	8.86	9.03	8.51	9.20	8.63	11.00	10.26
April	12.47	11.45	9.76	8.77	9.18	8.22	9.35	8.43	11.00	10.50
May	12.51	11.22	9.82	8.61	9.36	7.94	9.54	8.23	11.00	10.50
June	12.55	11.03	9.89	8.37	9.45	7.55	9.68	7.80	10.00	10.22

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college of business administration
economic forecasting project
404/658-3282

MONTHLY PROJECTIONS
June 1985

Dr. Donald Ratajczak, Director
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SLOW GROWTH REAPPEARS IN THIRD QUARTER

In June, manufacturing employment fell even more sharply than in the previous five months while service jobs grew at a slower rate than in the past year. Construction activity took a breather from its booming first half performance. If the Federal Reserve had not eased reserve restraints in May and June, this unbalanced growth probably would have tilted the economy into minimal gains during the second half of 1985. However, rapid growth in the monetary base during June and a surprisingly strong gain in money growth despite weak loan demand momentarily reduced interest rates. Reduced interest rates, in turn, diminished foreign investor enthusiasm for the dollar. As a result, the dollar is now falling significantly in value, gradually increasing the competitiveness of American manufacturing. A continuation of this downward trend in the dollar's value should ease the erosion in manufacturing activity by early 1986.

Of course, the Federal Reserve's move also sustained a construction expansion that no longer is justified by economic conditions. Strong construction spending is expected through the summer months and into the fall. However, a correction from those lofty construction levels should develop before year's end independent of any further Federal Reserve easing. Indeed, whether a recession can be avoided in 1986 will depend upon whether the correction in construction can be offset by moderate improvement in manufacturing.

Unfortunately, consumers have little capacity to sustain high purchases of consumer durables. While a further spurt in housing activity may encourage non-auto durable sales into the early months of 1986, automobile sales already have passed their peak. (Sales are now slightly more than one million units per year above replacement demand.)

The consumer still might provide sufficient support to ease the economy's adjustments as construction slows and manufacturing gradually improves if real purchasing power can be maintained. Certainly, as manufacturing becomes more competitive with foreign producers, wage restraints will gradually be lifted. However, the hourly earnings index is only 3.1 percent above previous year levels and has remained in the vicinity of three percent year-over-year gains for the past 12 months. While wages in the service sector are intensifying, no dramatic surge in wage pressures is expected. At the same time, the manufacturing workweek has worked its way back up to 40.4 hours. Possibilities for increasing overtime from these levels is not significant. Thus, wage income in nominal terms should show minimal acceleration in the next year.

Non-wage income received by households should grow more slowly, as interest income declines to reflect a decrease in short-term interest rates. While tax burdens momentarily are being eased as the delayed refund checks are being disbursed, this source of increased consumer purchasing power will soon end. Thus, disposable income before inflation will be growing slightly more slowly than in the previous year. With a consumer sector that already has installment debt at record levels relative to disposable income, substantial increases in consumption at the expense of savings is not likely.

Of course, lower inflation rates could provide continuing consumer support for the economy. Modest inflation is anticipated through the summer months as oil prices fall further and food prices remain well-subdued. By the end of the year, however, meat liquidation should come to an end. During the subsequent period of herd rebuilding, food prices should accelerate, probably to the vicinity of 5% in 1985 following only a 2% rate of increase in 1984. In addition, the dollar's decline will gradually reduce competitive pressures from abroad that have been restraining commodity prices in the United States. Thus, inflationary pressures should gradually intensify. This will lower the growth of real disposable income at a time when the consumer is not able to substantially add to debt. In short, the consumer probably cannot provide sufficient support to prevent at least a mild downturn in 1986 when construction contracts.

In the meantime, a slightly more favorable condition for economic activity should develop in the third and fourth quarters. The inventory correction that led to a 0.4% decline in manufacturing inventories during May should diminish. This gradual increase in activity already has begun to raise commercial paper holdings and the growth of the money stock. Soon, the Federal Reserve must decide whether to continue current accommodation. While no significant Federal Reserve tightening is anticipated, some upward movement in short-term interest rates is anticipated in the next six months. This probably will increase long-term interest rates slightly. Rates are expected to resume their downward direction in 1986 as the construction boom comes to an end.

Equity values currently are responding to reduced interest charges and prospects for improved economic conditions in the latter half of 1985. Concern about any inflationary fallout from the dollar's weakness has not yet materialized. As long as the equity markets accentuate the positive from current conditions, higher values can be anticipated. Indeed, the market may approach 1400 on the Dow Jones during the summer months. However, the inflationary fallout from a declining dollar eventually will lead to higher interest rates and a reduced consumer capacity to support the economy. When those increasing inflationary pressures become apparent during the fall, equity values should fall significantly.

Quarterly Profile of GNP

	1985-1	1985-2	1985-3	1985-4	1986-1	1986-2
Real:	0.3	2.2	3.7	4.0	2.2	1.7
Price:	5.4	3.2	3.6	3.6	4.8	4.7
Nominal:	5.8	5.5	7.4	7.7	7.1	6.5

Monthly Statistical Highlights for June 1985

Personal income +0.6%; savings rate 5.1%; personal consumption +0.5%; retail sales -0.3%; housing starts +5.1%; housing permits -6.4%; construction expenditures -0.1%; business inventories +0.1%; orders for durable goods -1.5%; orders for nondefense capital goods +1.3%; industrial production +0.1%; CPI +0.3%; PPI +0.2%; consumption deflator +0.4%; leading indicators +0.4%; real GNP +5.1%; M1 +12.2%; M2 +9.9%.

Monthly Statistical Highlights for July 1985

Payroll employment +175,000; index of hours worked +0.2%; household employment +693,000; civilian unemployment rate 7.2%; personal income +0.5%; savings rate 4.7%; personal consumption +0.7%; retail sales +0.8%; auto sales 10.7 million; housing starts +7.3%; housing permits +1.3%; construction expenditures -0.1%; business inventories +0.1%; orders for durable goods +2.2%; orders for nondefense capital goods +2.9%; industrial production +0.3%; CPI +0.2%; PPI +0.2%; consumption deflator +0.2%; leading indicators +0.4%; real GNP +1.4%; M1 +9.8%; M2 +10.0%.

COMMENTARY

Employment - Although payroll employment increased only 80,000 in June, with a 56,000 reduction in payrolls of goods producing industries, the index of hours worked continued to expand. During the second quarter, this index increased at an annual rate of 3.2%. With estimates of economic activity falling below that, it appears that a second consecutive quarter of negative productivity gains developed. This excess labor will prevent any rapid increases in payroll employment during the third quarter. However, about 40,000 of the decline in payrolls during June represented a slip in local government payrolls and probably reflects seasonal problems associated with the school year. Also, the decline in employment for general retail merchandising that developed in June should not persist through the summer. On the other hand, a sharp dip in household employment also reflects problems with seasonal adjustments during June. Although payrolls have increased by 1.4 million in the first six months of 1985, household employment is unchanged. A sharp rebound in household employment should be expected in the summer months. This could temporarily reduce the unemployment rate.

Personal Income & Outlays - Personal income fell sharply in May as agricultural support programs which bolstered income in April were no longer available. In addition, an April increase in post office payrolls did not persist through May. On the other hand, unemployment compensation continued to dip, although initial claims in June suggest that such compensation may rise in that month. Interest income continues to grow at an especially sluggish pace that should persist well into the summer months.

Tax refunds should continue to prop up disposable income in June but not by the same magnitude as in May. By July, tax payments should regain a normal pattern. As consumers did not replenish their savings as much when the refunds began to flow as they drew them down when the refunds were delayed, normal savings currently has fallen below 5%. At these levels and with the significant amount of consumer debt outstanding, it is unlikely that the consumer will provide independent support for the economy.

Retail sales in nondurable goods did not correspond to nondurables outlays in May. As a result, a significant upward revision in May retail sales is possible. However, auto sales fell sharply late in June, leading to a significant dip in sales for the month. Some sales improvement is expected in July because of increased availability of popular models. This will cause retail sales and outlays to rebound in that month. However, outlays should remain surprisingly sluggish in June with a significant slowing in durables spending. Indeed, except for a surge in services spending, which is aided by utility consumption caused by exceptionally hot weather, June would have shown weakness. It should be noted, however, that the upward revision in retail activity for March and April leads to higher estimates for personal consumption spending during the second quarter than had been contained in our May forecast.

Construction - Housing starts during May were surprisingly weak as both single-family and multi-family activity fell sharply from the previous month. However, housing permits remain strong with multi-family permits able to support more than 800,000 multi-family starts. While permits are expected to slow in June, starts should rebound toward levels obtained in April.

Construction spending was revised sharply upward, especially during the first quarter. Because of the May sluggishness in housing, construction spending is expected to show little change in June. By September, however, the construction boom will again surface. A peak is expected in construction by the end of the year.

Business Activity - Declines in manufacturing inventories during April and May indicate that manufacturers do not have sufficient orders to maintain even current levels of activity. However, economic conditions should gradually improve to generate increased orders. As this develops, manufacturing production and inventories should pick up. In April, retail inventories were surprisingly strong and probably remained excessive in May as sales declined. Retailers are expecting to diminish their inventory holdings in June. Wholesalers, who maintained good inventory balance in April should be building up their stockpiles.

Prices - Declining oil prices probably will restrain inflationary pressures through the summer months. As mentioned above, the meat cycle should begin to generate increasing food inflation early in 1986. However, the dollar's decline, which was anticipated but not to the current extent, will begin to impart increasing inflationary pressures on commodity producing industries by the end of this year. As prices of precious metals rise, the consumer durables deflator could intensify even more than projected. However, further declines in energy prices will be sufficient to restrain price increases for nondurables and services into the early months of 1986.

Revisions in construction data have removed evidence of significant construction inflation. Although an anticipated surge in construction activity later in 1985 should cause an acceleration in the construction deflator, construction inflation will not be as severe as originally anticipated. This is providing a restraining effect upon the estimated GNP deflator.

Miscellaneous - A declining dollar might lead to higher deficits on the merchandise trade account than currently projected. Importers who already have orders outstanding may need to pay more for their shipments. By 1986, however, the adverse price effect from a dollar devaluation should be completed.

A surprisingly strong estimate of real GNP for June is not easy to defend. However, the need to establish GNP estimates consistent with quarterly estimates indicates such a large increase for June. Of course, inventory reductions will not be as significant in June as in May. Our projections also suggest that trade balances will not be quite as negative in June as in May.

FINANCIAL MARKETS

Short-term interest rates continue to perform as expected during a period of inventory liquidation. Although rates fell more sharply than expected, this was the result of a greater reduction in inventories, especially at the manufacturing level, than expected. Once inventory liquidations are included in the analysis, short-term interest rates follow an expected pattern. If the inventory liquidation cycle is temporarily ending, some firming in short-term interest rates should be anticipated. This might explain why the Federal Reserve has had considerable difficulty restraining the federal funds rate in recent weeks. However, a sharp discrepancy between rates on federal funds and commercial paper suggests that conditions associated with Federal Reserve management of reserves rather than private credit market pressures is responsible for current interest rate patterns. Our projections suggest that short-term interest rates probably have reached their low point for the present time. Although no dramatic increase in rates is anticipated, an upward trend should develop through the remainder of this year. This trend should be strong enough to place modest upward pressures upon the prime rate by the fall.

Long-term interest rates are more difficult to gauge at the present time, as the yield-curve remains very steep. Although long-term rates have rallied significantly, the steepness in the yield-curve can continue to be flattened through further decreases in long-term rates. Indeed, less than proportional response to upward pressures on short-term rates is expected in the coming months. This suggests that upward interest rate movements on long-term instruments should be modest and short-lived. While investors in long-term debt instruments may be inclined to take profits following significant gains in the first half of this year, our analysis suggests that after-tax total returns during the next year will remain higher for long-term investors than for those who switch into short-term instruments.

Equity Markets - A rebound in economic activity during the third and fourth quarters should raise after-tax operating profits. Of course, the rebound also will create rising interest rate pressures. If these pressures remain as limited as currently expected, equity values should have no difficulty rising to record levels in the summer months. By the fall, however, prospects of declining profitability ahead should begin to create market uncertainty. Equity values then would be expected to fall significantly early in 1986. However, the declining dollar should enhance asset and commodity-based equities and also improve the relative performance of multi-national corporations. High technology domestically produced corporations normally would perform poorly, although the end of inventory liquidations in the semi-conductor industry could provide some investment opportunities there. Cyclical stocks should continue to have difficulties and consumer-based equity values also should be under downward pressures when the market declines.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	96045	96045	114.6	114.6	106391	106391	7.4	7.4	162.8	162.8
February	96157	96591	114.2	115.1	106685	106685	7.3	7.3	163.8	164.0
March	96538	96910	115.0	115.7	107119	107119	7.3	7.3	164.4	164.4
April	96753	97120	115.3	115.6	107381	106945	7.3	7.3	164.8	164.8
May	96930	97386	115.6	116.2	107525	106960	7.2	7.3	165.0	165.0
June	97119	97466	115.8	116.5	107672	106370	7.2	7.3	165.4	165.4*
July	97342	97641*	116.1	116.7*	107913	107063*	7.1	7.2*	166.0	165.9
August	97559	97808	116.4	116.9	108126	107350	7.1	7.2	166.7	166.4
September	97773	98075	116.8	117.2	108408	107662	7.0	7.2	167.3	167.0
October	97992	98310	117.0	117.5	108623	107952	7.0	7.1	167.8	167.6
November	98169	98486	117.1	117.7	108820	108087	6.9	7.1	168.4	168.2
December	98334	98741	117.3	118.0	109015	108368	6.9	7.1	169.0	168.8
January 1986	98492	98908	117.4	118.2	109237	108580	6.9	7.1	169.8	169.4
February	98641	99080	117.5	118.4	109414	108802	6.8	7.1	170.7	170.0
March	98790	99172	117.6	118.5	109591	108935	6.9	7.2	171.5	170.5
April	98916	99264	117.8	118.6	109802	109069	6.9	7.2	172.0	171.0
May	99053	99356	118.0	118.7	109930	109239	6.9	7.2	172.4	171.6
June	99193	99360	118.1	118.7	110058	109331	7.0	7.4	172.8	172.2

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	3.127	3.129	1.873	1.873	151.2	150.9	2.671	2.672	2.520	2.521
February	3.140	3.146	1.881	1.881	106.4	110.3	2.650	2.656	2.543	2.545
March	3.156	3.156	1.895	1.895	105.5	94.6	2.637	2.637	2.531	2.543
April	3.175	3.189	1.906	1.904	152.1	157.6	2.711	2.724	2.559	2.567
May	3.189	3.172	1.917	1.909	165.4	182.5	2.743	2.769	2.578	2.586
June	3.203	3.190*	1.928	1.920*	172.9	140.6*	2.765	2.738*	2.592	2.598*
July	3.223	3.207	1.940	1.930	139.7	129.4	2.751	2.747	2.611	2.617
August	3.246	3.226	1.951	1.940	143.5	132.7	2.769	2.763	2.626	2.630
September	3.269	3.247	1.963	1.953	148.9	134.5	2.788	2.781	2.639	2.647
October	3.287	3.269	1.974	1.966	146.1	141.8	2.803	2.800	2.651	2.658
November	3.306	3.288	1.983	1.977	144.1	139.1	2.818	2.813	2.674	2.674
December	3.325	3.309	1.992	1.990	143.2	138.1	2.834	2.830	2.691	2.692
January 1986	3.339	3.322	2.004	2.001	143.6	136.6	2.852	2.840	2.708	2.703
February	3.359	3.341	2.017	2.012	142.5	137.0	2.866	2.856	2.724	2.719
March	3.378	3.359	2.030	2.021	142.4	140.2	2.881	2.871	2.739	2.731
April	3.392	3.378	2.037	2.030	134.9	145.2	2.892	2.887	2.757	2.741
May	3.410	3.397	2.046	2.040	135.5	145.8	2.908	2.902	2.773	2.756
June	3.428	3.414	2.055	2.048	135.2	144.4	2.924	2.916	2.789	2.773

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	2432.3	2432.6	331.7	331.7	875.2	875.2	1225.4	1225.7	1085.9	1086.0
February	2454.6	2455.8	337.9	338.0	882.3	879.4	1234.4	1238.3	1093.3	1093.2
March	2441.5	2451.1	329.6	334.7	876.3	877.1	1235.6	1239.3	1083.7	1088.2
April	2468.2	2474.5	336.2	338.5	885.7	893.6	1246.3	1242.4	1093.1	1098.0
May	2485.8	2492.8	340.1	341.2	890.2	900.1	1255.5	1251.5	1097.5	1102.9*
June	2499.2	2504.7*	340.4	334.7*	894.1	905.3*	1264.7	1264.7*	1099.5	1104.1
July	2517.3	2522.6	342.7	339.7	899.3	909.3	1275.3	1273.6	1104.1	1109.6
August	2530.3	2535.3	343.8	341.3	902.4	911.6	1284.1	1282.4	1106.9	1112.4
September	2542.7	2550.2	344.6	344.2	905.5	913.7	1292.6	1292.3	1108.9	1115.9
October	2559.4	2560.7	346.2	344.6	911.7	916.3	1301.5	1299.8	1112.3	1117.6
November	2575.2	2576.1	347.0	344.3	916.8	922.6	1311.4	1309.2	1114.8	1120.4
December	2591.0	2592.8	345.7	345.6	922.2	926.8	1323.1	1320.4	1117.3	1123.7
January 1986	2607.6	2603.0	348.4	344.6	926.8	929.4	1332.4	1329.0	1120.1	1124.3
February	2621.7	2618.3	349.5	346.7	930.9	933.3	1341.3	1338.3	1121.8	1126.8
March	2635.8	2628.8	350.6	343.9	935.0	938.0	1350.2	1346.9	1123.5	1127.3
April	2653.3	2638.0	352.7	342.6	940.2	939.8	1360.4	1355.6	1127.1	1127.1
May	2667.8	2652.5	353.1	342.3	945.2	945.8	1369.5	1364.4	1129.5	1128.9
June	2683.1	2667.6	352.0	343.7	950.1	950.2	1381.0	1373.7	1131.6	1131.7

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	110.97	110.97	16.00	16.00	11.2	11.2	70.35	70.35	24.62	24.62
February	112.74	112.10	16.27	16.12	10.6	10.6	71.42	71.02	25.04	24.95
March	110.54	111.85	16.27	16.27	10.6	10.6	70.23	71.09	24.04	24.49
April	112.42	114.58	16.40	16.48	11.0	11.1	71.29	72.02	24.73	26.08
May	113.26	113.68	16.48	16.33	10.7	11.2	71.65	72.04	25.13	25.30
June	113.61	113.38*	16.43	16.38*	10.8	10.5	71.97	72.54*	25.21	24.26*
July	114.32	114.31	16.51	16.50	11.0	10.7*	72.39	72.86	25.42	24.95
August	114.70	114.68	16.53	16.58	11.0	10.7	72.64	73.04	25.53	25.06
September	115.05	115.20	16.70	16.67	10.9	10.8	72.89	73.21	25.46	25.32
October	115.74	115.51	16.82	16.82	10.8	10.7	73.39	73.46	25.53	25.23
November	116.25	115.93	17.09	16.96	10.7	10.6	73.80	73.92	25.36	25.05
December	116.52	116.47	16.98	17.04	10.7	10.6	74.23	74.30	25.31	25.13
January 1986	117.22	116.56	17.15	17.11	10.7	10.5	74.60	74.51	25.47	24.94
February	117.69	117.12	17.24	17.20	10.6	10.6	74.93	74.82	25.52	25.10
March	118.15	117.16	17.39	17.25	10.6	10.4	75.26	75.20	25.50	24.71
April	118.83	117.18	17.49	17.30	10.6	10.3	75.68	75.38	25.66	24.50
May	119.28	117.59	17.60	17.38	10.5	10.2	76.08	75.82	25.60	24.39
June	119.54	118.14	17.44	17.45	10.5	10.2	76.48	76.21	25.62	24.48

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	1.849	1.849	1.060	1.060	1.676	1.635	316.2	341.0	189.5	205.2
February	1.631	1.647	1.123	1.135	1.636	1.624	320.6	334.3	192.3	201.1
March	1.895	1.889	1.149	1.168	1.814	1.741	326.5	333.7	195.5	200.9
April	1.938	1.927	1.178	1.159	1.793	1.704	329.4	338.3	196.7	202.9
May	1.973	1.663	1.203	1.042	1.818	1.755	336.2	343.5	199.9	205.7
June	1.957	1.747*	1.192	1.091*	1.778	1.642*	342.7	343.4*	202.8	205.3*
July	1.959	1.874	1.217	1.146	1.783	1.663	345.5	343.2	204.0	204.5
August	1.933	1.905	1.205	1.162	1.752	1.685	348.5	344.3	205.4	204.3
September	1.905	1.895	1.196	1.155	1.694	1.678	351.1	350.9	206.5	207.4
October	1.885	1.847	1.184	1.150	1.698	1.662	354.4	355.5	207.7	209.2
November	1.853	1.814	1.163	1.146	1.662	1.583	355.9	356.6	207.8	209.2
December	1.758	1.790	1.106	1.143	1.592	1.582	356.4	356.7	207.3	208.4
January 1986	1.723	1.748	1.082	1.127	1.564	1.547	355.0	356.3	205.9	207.4
February	1.721	1.718	1.093	1.132	1.585	1.556	353.6	355.8	204.6	206.5
March	1.691	1.699	1.083	1.125	1.526	1.504	352.2	354.5	203.5	205.3
April	1.656	1.689	1.064	1.117	1.448	1.483	351.9	354.1	202.7	204.6
May	1.608	1.671	1.045	1.108	1.392	1.462	352.1	354.8	202.2	204.5
June	1.553	1.657	1.021	1.096	1.377	1.435	352.4	354.5	201.8	204.0

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	130.5	128.4	57.3	57.4	128.5	155.3
February	131.7	130.4	56.4	57.8	132.5	146.0
March	133.9	128.4	57.8	59.1	134.8	146.2
April	135.2	134.5	58.7	59.3	135.5	144.5
May	136.8	135.7	59.9	61.0	139.5	146.8
June	138.3	135.0*	61.0	60.9*	143.4	147.5*
July	139.9	136.8	60.7	61.3	144.9	145.1
August	141.7	138.0	61.0	61.6	145.8	144.7
September	143.4	138.9	60.8	61.5	146.9	150.5
October	145.1	139.5	61.5	61.8	147.8	154.2
November	146.5	140.3	61.9	62.2	147.5	154.1
December	147.8	141.1	62.3	62.5	146.3	153.1
January 1986	149.0	142.6	62.0	62.0	144.0	151.7
February	150.0	143.3	61.8	62.2	141.8	150.3
March	151.1	144.0	61.9	62.5	139.2	148.0
April	152.2	144.6	62.1	62.9	137.6	146.6
May	153.1	145.3	62.4	63.3	136.6	146.2
June	153.9	145.8	62.8	63.6	135.7	145.1

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	284.7	285.8	104.99	105.45	23.14	23.63	25.64	25.25
February	285.7	286.1	103.69	102.47	29.50	29.49	26.31	26.33
March	286.3	286.2	104.63	99.54	27.42	27.21	26.82	27.77
April	286.9	286.0	105.92	99.73	27.59	25.41	27.03	27.26
May	288.1	285.0	106.38	102.94	27.68	25.62	27.26	26.95
June	290.0	285.3*	106.51	101.42*	27.42	25.95*	27.38	26.67*
July	292.3	286.1	106.89	103.66	28.13	26.71	27.56	26.63
August	293.2	286.8	106.27	104.47	28.24	27.04	27.78	26.76
September	293.6	287.9	105.42	105.23	28.02	27.23	28.01	26.95
October	294.9	289.3	104.28	105.02	27.43	27.46	28.23	27.13
November	296.5	290.2	106.07	104.75	27.92	27.31	28.36	27.21
December	297.5	291.2	107.46	103.88	28.26	27.05	28.45	27.20
January 1986	298.8	292.7	108.71	105.11	28.69	27.16	28.56	27.11
February	300.1	294.1	109.13	105.66	28.82	27.30	28.62	27.04
March	301.5	295.7	109.08	104.84	28.75	27.08	28.41	27.16
April	303.2	296.6	109.26	104.46	28.71	26.83	26.82	27.24
May	304.9	298.9	108.16	103.62	28.14	26.53	28.56	26.98
June	306.6	300.1	108.91	103.08	28.11	26.61	28.71	26.93

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	574.6	574.6	6.52	6.38	165.2	165.1	81.2	81.1
February	576.9	578.9	6.81	6.70	164.9	165.4	80.8	81.1
March	578.1	578.8	6.89	6.72	165.4	165.9	80.8	81.1
April	583.6	581.3	6.95	6.38	166.1	165.5	80.9	80.7
May	586.2	581.0*	7.06	6.50	166.7	165.3	81.0	80.3
June	588.4	581.6	7.18	6.71*	167.3	165.4*	81.1	80.1*
July	591.4	582.4	7.29	6.84	167.7	165.9	81.0	80.1
August	594.7	583.9	7.46	6.98	168.0	166.4	80.9	80.1
September	597.7	585.6	7.54	7.11	168.3	167.0	80.8	80.2
October	601.1	588.5	7.51	7.10	168.5	167.4	80.6	80.2
November	604.3	592.3	7.67	7.24	168.7	167.7	80.4	80.1
December	606.4	594.7	7.89	7.37	168.7	168.0	80.2	80.1
January 1986	610.2	597.3	7.95	7.50	168.7	168.2	80.0	80.0
February	612.3	601.4	8.03	7.59	168.9	168.5	79.9	79.9
March	614.7	605.2	8.10	7.63	169.4	168.7	79.9	79.8
April	617.9	608.9	8.23	7.68	170.3	168.8	80.1	79.6
May	621.3	613.4	8.34	7.84	171.5	168.6	80.4	79.3
June	626.1	618.1	8.46	7.83	172.6	168.4	80.7	79.0

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	316.6	316.6	292.4	292.1	323.2	323.2	228.23	228.25
February	317.7	317.7	292.1	292.1	322.5	322.5	228.96	228.96
March	319.0	319.2	292.7	292.7	322 6	322.6	229.84	230.00
April	320.2	320.4	293.7	293.6	324.0	323.8	230.53	230.21
May	321.1	321.1	294.3	294.2	325.4	325.4	231.42	230.77
June	322.1	322.3*	295.1	294.8*	326.5	325.4*	232.13	231.69
July	322.9	323.0	295.6	295.3	326.7	325.7	232.91	232.30
August	323.6	323.8	295.5	295.6	326.2	325.8	233.59	232.96
September	324.3	324.6	295.4	295.5	324.2	324.3	234.27	233.53
October	325.9	325.4	296.3	295.3	326.5	326.4	235.19	234.13
November	327.5	326.5	297.0	295.9	327.6	327.5	236.13	234.96
December	329.0	327.6	297.9	296.5	328.8	328.6	237.06	235.86
January 1986	330.3	328.8	298.9	297.2	329.6	329.6	237.89	236.82
February	331.5	329.9	299.8	297.8	330.2	330.4	238.65	237.72
March	332.8	331.2	300.8	298.5	330.9	331.1	239.40	238.68
April	334.4	332.5	301.9	299.2	332.4	332.5	240.21	239.55
May	336.0	333.9	303.0	300.0	333.9	333.8	241.07	240.56
June	337.5	335.1	304.1	300.8	335.3	334.9	241.87	241.33

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	224.0	224.0	178.1	178.1	220.0	220.0	244.2	244.2	166.9	166.2
February	224.5	224.6	179.4	179.6	219.9	219.7	245.1	245.3	166.7	166.2
March	225.1	225.3	179.8	179.5	220.1	220.5	245.4	246.0	167.0	166.2
April	225.8	225.4	180.2	179.2	220.8	221.0	246.5	246.2	167.5	166.7
May	226.5	226.0*	180.2	179.7*	221.4	221.5*	247.7	247.0*	168.2	167.0
June	227.3	226.8	180.3	179.8	222.0	222.1	248.8	247.8	169.0	167.3*
July	228.0	227.3	180.4	180.1	222.5	222.5	249.9	248.6	169.4	167.8
August	228.6	227.9	180.7	180.3	222.8	222.8	250.9	249.5	169.7	168.5
September	229.3	228.5	181.0	180.6	223.2	223.3	252.0	250.4	170.0	169.2
October	230.1	229.1	181.4	180.5	224.2	223.7	253.1	251.4	170.6	169.9
November	231.0	229.9	181.4	180.8	225.0	224.2	254.2	252.5	171.3	170.5
December	231.9	230.7	181.2	181.2	225.9	224.8	255.2	253.6	171.9	171.2
January 1986	232.8	231.5	181.6	181.6	226.5	225.3	256.4	254.6	172.4	171.8
February	233.7	232.4	182.2	182.0	227.3	225.9	257.6	255.8	172.8	172.3
March	234.6	233.2	182.7	182.3	228.0	226.5	258.9	256.8	173.1	172.7
April	235.4	234.1	183.0	182.6	228.6	227.1	260.0	257.9	173.6	173.1
May	236.2	235.0	183.2	183.0	229.3	227.9	261.1	259.0	174.1	173.5
June	237.1	235.7	183.4	183.3	230.0	228.6	262.2	259.9	174.6	173.8

Fore. = May Forecast
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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	-10.29	-10.29	166.4	166.3	3814	3808	1671	1668	2.3	1.0
February	-11.45	-11.45	167.5	167.7	3814	3805	1666	1662	0.8	0.1
March	-11.50	-11.05	168.2	167.6	3832	3819	1667	1660	-0.3	-2.8
April	-11.15	-11.85	168.5	166.6	3869	3837	1678	1667	1.7	-2.6
May	-10.81	-12.67	169.0	167.8	3903	3858	1687	1672	6.8	-0.4
June	-10.52	-12.16*	168.8	168.4*	3932	3890	1694	1679	4.5	1.6
July	-10.68	-12.38	169.0	169.1	3956	3906	1699	1681	2.6	3.1
August	-11.08	-12.17	168.4	169.5	3977	3930	1703	1687	2.3	3.5
September	-11.53	-11.88	168.0	169.1	3999	3960	1707	1696	2.0	2.0
October	-11.69	-11.96	167.7	169.3	4022	3982	1710	1701	5.3	1.6
November	-11.24	-11.67	168.2	169.0	4045	4007	1713	1705	8.8	0.4
December	-11.13	-11.38	168.6	168.7	4064	4028	1714	1708	8.9	1.8
January 1986	-11.25	-11.67	169.1	169.5	4083	4052	1716	1711	10.6	3.7
February	-11.50	-11.75	169.5	169.8	4102	4076	1719	1715	12.9	5.2
March	-11.11	-11.26	169.5	169.1	4122	4096	1722	1716	13.5	6.6
April	-11.26	-11.05	169.2	168.5	4159	4116	1731	1718	14.2	6.9
May	-11.05	-11.22	168.8	167.9	4185	4140	1736	1721	14.9	7.5
June	-10.98	-11.07	168.5	167.3	4211	4164	1741	1725	13.8	8.2

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	218.4	218.2	563.0	562.7	2400.4	2398.9	8.35	8.35	8.00	8.00
February	219.3	219.2	569.2	569.4	2420.6	2421.0	8.50	8.50	8.39	8.39
March	222.0	221.7	571.9	572.1	2427.6	2429.2	8.58	8.58	8.90	8.90
April	223.1	221.9	574.6	574.9	2435.7	2427.5	8.33	8.27	8.46	8.23
May	224.0	223.7	577.9	581.6	2457.3	2444.5	8.45	7.97	8.27	7.65
June	224.9	227.4	581.3	587.2	2479.5	2463.8	8.43	7.53	8.25	7.09
July	226.2	227.7*	584.7	591.8*	2492.6	2483.5*	8.72	7.71*	8.72	7.16*
August	227.4	228.7	587.4	593.5	2509.2	2495.9	9.25	7.72	9.04	7.28
September	228.7	229.8	589.9	595.9	2526.6	2513.4	9.83	8.26	9.23	7.53
October	230.0	230.9	592.3	598.0	2543.1	2531.0	9.65	8.37	9.29	7.66
November	231.1	232.2	595.5	600.9	2559.7	2551.2	9.68	8.43	9.25	7.71
December	232.2	233.3	598.8	603.3	2575.8	2569.1	9.52	8.46	9.22	7.74
January 1986	233.4	234.1	601.2	605.1	2592.7	2584.5	9.29	8.32	8.95	7.61
February	234.5	235.3	605.7	608.3	2610.6	2602.6	9.10	8.21	8.72	7.42
March	235.6	236.0	609.9	610.1	2628.8	2618.2	9.06	8.07	8.61	7.31
April	237.0	237.2	613.8	613.6	2647.9	2639.1	9.21	8.15	8.85	7.38
May	238.8	238.1	615.7	616.0	2664.4	2657.6	9.35	7.78	8.89	7.26
June	240.3	239.3	617.5	619.3	2681.1	2676.2	9.43	7.73	8.95	7.24

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	12.08	12.08	9.51	9.51	8.03	8.03	8.14	8.14	10.62	10.62
February	12.13	12.13	9.53	9.65	8.54	8.54	8.69	8.69	10.50	10.50
March	11.96	12.56	9.69	9.77	8.90	8.90	9.07	9.07	10.50	10.50
April	11.92	12.23	9.53	9.42	8.42	8.37	8.63	8.49	10.50	10.50
May	12.15	11.72	9.72	8.93	8.36	7.83	8.49	7.92	10.50	10.31
June	12.37	10.94	9.92	8.59*	8.38	7.35	8.56	7.44	10.50	9.78
July	12.48	10.78*	10.05	8.50	8.81	7.52*	8.96	7.69*	10.86	9.50*
August	12.60	10.86	10.14	8.58	9.32	7.68	9.47	7.85	11.27	9.50
September	12.68	11.07	10.25	8.77	9.85	8.03	9.98	8.19	11.50	9.76
October	12.72	11.16	10.21	8.87	9.62	8.24	7.96	8.42	11.50	10.00
November	12.70	11.08	10.16	8.81	9.60	8.35	9.75	8.53	11.50	10.00
December	12.68	11.26	10.09	8.91	9.47	8.22	9.59	8.39	11.50	10.00
January 1986	12.49	11.07	9.84	8.77	9.15	8.06	9.32	8.27	11.50	10.00
February	12.42	10.98	9.70	8.73	9.10	8.15	9.26	8.38	11.23	10.00
March	12.36	10.96	9.59	8.69	9.03	8.05	9.20	8.26	11.00	10.00
April	12.47	10.88	9.76	8.61	9.18	8.19	9.35	8.41	11.00	10.00
May	12.51	10.76	9.82	8.50	9.36	7.88	9.54	8.11	11.00	10.00
June	12.55	10.69	9.89	8.39	9.45	7.81	9.68	8.06	10.00	10.00

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MONTHLY PROJECTIONS
JULY 1985

Dr. Donald Ratajczak, Director
For Release: July 24, 1985

INVENTORY GROWS AND CONSUMPTION SLOWS IN MODEST REBOUND

Surprising inventory liquidations during May, with projections of continuing moderate liquidations in June, accounted for much of the sluggishness in economic activity during the second quarter. Final demand increased 5.1%. These inventory liquidations were especially significant at the retail level, although manufacturing inventories also declined. Inventories now are in a significant position to add to economic growth during the third quarter.

However, the consumer may no longer be able to sustain substantial expansion in consumption. In June, the savings rate fell to a surprisingly low 3.9% despite more than normal refunds that raised disposable income $2.4 billion above normal rates for June. Those analysts who claim that consumption did not rebound strongly in response to tax refunds simply are not reading the conditions correctly. In fact, consumer growth did not accelerate in the second quarter because inventory liquidations led to restricted growth of wage income. In addition, declining interest rates during the second quarter caused a significant slowing in property income. Also, unemployment compensation continued to fall as some long-term unemployed lost their benefit eligibility.

Some analysts also claim that savings rates are unusually low because provisions have not been made for the Keough and 401(k) plans. In fact, these savings programs do not restrict the growth of wage income as reported on the E-202 forms which are used to determine Social Security and unemployment compensation. Therefore, the savings programs are not being as grossly understated as some people believe. At the same time, consumer installment debt has risen to more than 18% of disposable income. Although households appear to have sufficient assets to support higher debt ratios than historically, consumer debt is growing 2.5 times as rapidly as consumer income. This suggests that some weakness will develop in purchases of consumer durables in the second half of 1985.

Housing showed less strength in the latter part of spring than was suggested by permits. Nearly a 150,000 unit gap exists between permits and starts for multi-family units. Perhaps, builders are continuing to receive permits but are delaying starts until they receive a clearer reading from Washington on tax changes. In recent weeks, the inability of Congress to do very much has reduced the possibility that a comprehensive tax package will be enacted before the 1986 congressional elections. As tax worries diminish, builders will return to using economic conditions to determine the level of their activity. At the present time, vacancy rates are high for most multi-family units. Thus, building activity probably will be slowing for multi-family units. Declining mortgage rates should encourage single-family activity to increase. Nevertheless, housing activity is expected to trend downward by the end of this year.

A rebound in orders for nondefense capital goods suggests that fixed investment will be stronger during the second half of 1985 than originally projected. Anticipations surveys show that capital spending plans are being reduced for 1986. Thus, orders are expected to begin falling by the end of this year.

A declining dollar appears to have had little noticeable effect upon inflationary conditions for the next year. Although prices of precious metals are expected to rise, causing the jewelry component of consumer durables to grow more rapidly than originally projected, few other signs of the dollar's impact upon inflation can be uncovered. Oil prices are expected to fall by $2 per barrel within a month. No further declines in oil prices are then expected in the next year.

The weak dollar will raise the nominal trade deficit, as importers need more dollars to purchase foreign currencies necessary to pay for their second half purchases. This heightened trade deficit is expected to persist into the early months of 1986. We expect the dollar to fall further, but not until the U. S. economy weakens again early in 1986.

One anomaly that cannot easily be explained is continued rapid growth in the money stock. The money multiplier is now well-above the 2.60 rate that normally is considered historically high. Part of this rapid growth is being generated by a transfer of funds between M2 and M1. With interest rates at levels that sharply reduce the relative attractiveness between longer term certificates and more liquid interest bearing checking accounts, checkable deposits have become more attractive. However, a recent acceleration in currency demand suggests that other forces also are at work. Our estimates do show a significant rebound in monthly GNP. Thus, intensifying transactions demand cannot explain the strength in the money stock.

Also, strong money growth early in the year is not expected to be converted into rapid nominal GNP growth later. Rather, these portfolio and unexplained shifts are expected to persist into 1986. Thus, the volicity of money is expected to show surprisingly sluggish performance following two years of near normal velocity gains.

Also sluggish is productivity gains. During the first half of 1984, productivity in the private economy has declined at a 1.5% annual rate. Part of this is the result of greater weakness than anticipated by personnel departments. This would suggest that employment gains will be relatively weak during the latter half of 1985. However, some of the poor productivity performance is the result of composition shifts between manufacturing and service jobs.

The bond market probably has reached its highest prices for the year. Moderate acceleration in economic activity coupled with a modest deceleration in Federal Reserve accommodation should combine to cause a slight upward drift in all rates of interest. Continuation of a steep yield curve will prevent the long-term rate from rising as rapidly as short-term interest rates. Nevertheless, some increases in all rates should develop in the next six months.

Increasing economic activity will lead to higher earnings on equity ownership during the second half of 1985. However, rising interest rates will blunt the favorable impact that improving profits otherwise would generate in equity values. Increased earnings anticipations may be more than sufficient to offset rising interest rate problems during the summer months. As a result, the Dow Jones is expected to challenge 1400. However, corporate profitability should begin to erode early in 1986. At that point, equity values should decline significantly.

Quarterly Profile of GNP

	1985-1	1985-2	1985-3	1985-4	1986-1	1986-2
Real:	0.3	1.7	3.0	3.5	2.4	1.3
Price:	5.4	2.8	3.2	4.1	4.6	4.6
Nominal:	5.6	4.6	6.3	7.7	7.1	6.0

Monthly Statistical Highlights for July 1985

Payroll employment +173,000; index of hours worked +0.2%; household employment +693,000; civilian unemployment rate 7.3%; personal income +0.5%; savings rate 3.9%; personal consumption +0.5%; retail sales +0.3%; auto sales 10.5 million; housing starts +5.6%; housing permits -2.2%; construction expenditures -0.2%; business inventory +0.4%; orders for durable goods -1.7%; orders for nondefense capital goods -2.0%; industrial production +0.2%; CPI +0.2%; PPI +0.1%; consumption deflator +0.3%; leading indicators +0.4%; real GNP +3.6%; M1 +13.1%; M2 +8.9%.

Monthly Statistical Highlights for August 1985

Payroll employment +185,000; index of hours worked +0.2%; household employment +319,000; civilian unemployment rate 7.2%; personal income +0.5%; savings rate 3.9%; personal consumption +0.6%; retail sales +0.6%; auto sales 10.7 million; housing starts +2.5%; housing permits +1.6%; construction expenditures +0.2%; business inventory +0.4%; orders for durable goods +0.7%; orders for nondefense capital goods +2.1%; industrial production +0.2%; CPI +0.3%; PPI +0.1%; consumption deflator +0.3%; leading indicators +0.2%; real GNP +2.2%; M1 +3.1%; M2 +8.1%.

COMMENTARY

Personal Income and Outlays - As expected, personal income rebounded in June in the absence of any further adjustments to farm subsidies or any change in government payrolls. Wage and salary gains were slightly larger than projected, but significant slowing in property income and continued weakness in unemployment compensation caused total personal income to grow 0.5%. More significantly, less than $3 billion of refund distortions occurred in June. Thus, with tax payments almost back to normal, personal savings fell to 3.9%. This unusually large low rate of savings should generate some constraint upon consumer activity in the months ahead. Indeed, our projections of a continuation of savings at such low rates probably will not materialize. However, our consumer analysis cannot uncover where consumer spending will be weak. Automobile sales have been reduced from previous projections. Sales of non-auto durables also have been constrained, although a surprising drop in sales during June was responsible for most of that month's weakness. Continued strong gains in household durable shipments and orders suggest that the June decline was an abberation.

Certainly, June declines in general merchandise and gasoline station sales are not expected to persist, at least until energy prices fall again early in the fall. Therefore, some acceleration in nondurable sales should be anticipated. Rapid gains in purchases of services during May and June are not expected to persist. Nevertheless, above forecasted values of service purchases appear to be likely for the next year.

Perhaps, a rebound in property income as a result of a firming of interest rates could resolve this dilemma of unusually low rates of savings. Some analysts have maintained that the 401(k) program is distorting wage income and, therefore, savings. However, while those programs diminish reported wage income for income tax purposes, they do not reduce wage income reports for Social Security and unemployment compensation. It is these reports that are used to generate the personal income estimates. Certainly, the unusually low savings rate could be the result of data distortions. However, sources of these distortions are not apparent.

Construction - Housing starts did not rebound as much as anticipated in June. Permits continued to outstrip starts, with more than a 150,000 unit gap between permits and starts for multi-family units. Builder hesitancy as a result of possible tax changes may account for this gap. Certainly, permits should continue to fall until a more realistic relationship between permits and starts reappears.

The decline in single-family starts also was surprising, as housing affordability definitely is rising. Buyers may me moving to the sidelines to see how far interest rates will fall. If so, evidence that interest rates probably will fall very little should bring those buyers off the sidelines fairly soon. In the absence of any easy explanation for the weakness in single-family starts, our projections have lowered those starts over the next year. This is a source of potential error.

Business Activity - The most significant report on business activity was the sharp decline in retail inventories during May. With retail inventories declining 0.9%, manufacturing inventories falling 0.4%, and wholesale inventories only rising 0.1%, inventory liquidation significantly weakened economic activity during May and in the second quarter. A rebound is expected in these inventories, as sales now are beginning to outstrip inventories.

A second significant business activity report was the sharp rebound in nondefense capital goods orders reported for June. After falling significantly below forecasted values in April and May, orders have now snapped back to previous anticipations. They are not expected to hold those levels. Some weakness in orders is anticipated next month. However, both orders and shipments have been revised upward in the next year as a result of the surprisingly strong June performance.

Also revised up has been defense shipments as a result of a surge in orders and the sharp rebound in shipments during June. Shipments still are expected to fall short of previously forecasted values, however,

The industrial production index was revised backward to 1967 and rebenched to 1977=100. Also, a reported decline in industrial production during April was reversed to a significant increase. Activity grew 0.1% in June as declines in utilities and mining partially offset 0.3% gains in consumer goods and business equipment. Defense and space activity increased 1.0%. A continuation of reasonably rapid growth for business equipment and consumer goods is expected through the summer months. If utility consumption rebounds, industrial production could grow more strongly than currently expected.

Prices - A sharp decline in the dollar's value in the past two weeks has not impacted any of our sensitive price indices with the exception of nonferrous metals. Even in the nonferrous metals, the pickup of inflationary pressures is surprisingly modest. Nevertheless, the dollar's decline from previous peaks probably will permit slightly more commodity inflation than had originally been projected. Fortunately, declining oil prices will offset this influence. For that reason, inflation is expected to remain subdued into 1986. At that time, however, rising meat prices should generate increasing food inflation. Continuing inflation in the service sector and the absence of deflation in energy will moderately accelerate inflationary pressures.

FINANCIAL MARKETS

Interest rates always decline during periods of inventory liquidations. If this inventory liquidation has come to an end, then the current firming in short-term interest rates should not be surprising. What is surprising, however, is the current absence of any realistic relationship between money growth and the expansion of economic activity or the change in interest rates. As mentioned above, portfolio adjustments may account for some of this rapid money growth. However, even velocity according to M2 is performing below normal. It would be necessary to demonstrate portfolio adjustments between M3 and other liquid assets and the two more commonly used monetary aggregates to explain this relationship.

Nevertheless, the Federal Reserve probably will be less accommodative in the second half of 1985 even as economic activity accelerates slightly. This should put some upward pressures upon short-term interest rates. Long-term interest rates also will increase as a result of modestly rising inflationary pressures.

According to our analysis by sector, consumer savings probably cannot fall further. Although housing activity may momentarily slow in the summer months, it will rebound again in the fall. Thus, the household sector should increase its net supply of credit in the summer and in the fall. The corporate sector will experience improving profitability but will also experience rising need for funds as a result of the reversalof inventory liquidations. Thus, corporate net borrowings are expected to rise both in the summer and fall. Government borrowings are expected to rise significantly during the second half of 1985. Some restraints upon government borrowings is possible early in 1986. With the dollar under attack, net foreign investment is expected to be less available at prevailing rates of interest. When all these forces are put together, interest rate pressures are building modestly during the third quarter and should be expected to intensify during the fourth quarter. Those pressures should remain undiminished early in 1986 before falling significantly in the latter part of that year.

This would suggest that interest rates could rise more sharply than currently projected during the next six months. Rates then may remain high early in 1986 before declining significantly later in that year.

Equity Markets - Our stock market formula suggests that equity values should rise significantly through the summer months. While interest rates are beginning to rise, significant gains in returns to equity should more than offset that influence. Equity gains should persist through the fourth quarter, but become more difficult by the middle of 1986. With interest rates rising through the fourth quarter and remaining high into 1986, equity values should trend downward. While the stock market probably will peak in the summer months, this analysis would not lead to any dramatic fall in equity values during 1986.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	96045	96045	114.6	114.6	106391	106391	7.4	7.4	162.8	162.8
February	96157	96591	114.2	115.1	106685	106685	7.3	7.3	163.8	164.0
March	96538	96910	115.0	115.7	107119	107119	7.3	7.3	164.4	164.4
April	96753	97120	115.3	115.6	107381	106945	7.3	7.3	164.8	164.8
May	96930	97386	115.6	116.2	107525	106960	7.2	7.3	165.0	165.0
June	97119	97466	115.8	116.5	107672	106370	7.2	7.3	165.4	165.4
July	97342	97639*	116.1	116.7*	107913	107063*	7.1	7.3*	166.0	166.0*
August	97559	97824	116.4	116.9	108126	107382	7.1	7.2	166.7	166.5
September	97773	98008	116.8	117.1	108408	107612	7.0	7.2	167.3	167.1
October	97992	98192	117.0	117.3	108623	107815	7.0	7.2	167.8	167.7
November	98169	98368	117.1	117.5	108820	108024	6.9	7.2	168.4	168.3
December	98334	98552	117.3	117.7	109015	108263	6.9	7.2	169.0	169.0
January 1986	98492	98727	117.4	117.9	109237	108469	6.9	7.2	169.8	169.7
February	98641	98895	117.5	118.1	109414	108669	6.8	7.2	170.7	170.3
March	98790	99070	117.6	118.3	109591	108922	6.9	7.2	171.5	170.9
April	98916	99255	117.8	118.5	109802	109078	6.9	7.3	172.0	171.5
May	99053	99430	118.0	118.7	109930	109316	6.9	7.3	172.4	172.2
June	99193	99539	118.1	118.8	110058	109526	7.0	7.3	172.8	172.8

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	3.127	3.129	1.873	1.873	151.2	150.9	2.671	2.672	2.520	2.521
February	3.140	3.146	1.881	1.881	106.4	110.3	2.650	2.656	2.543	2.545
March	3.156	3.156	1.895	1.895	105.5	94.6	2.637	2.637	2.531	2.543
April	3.175	3.188	1.906	1.903	152.1	148.0	2.711	2.722	2.559	2.574
May	3.189	3.170	1.917	1.909	165.4	180.6	2.743	2.771	2.578	2.590
June	3.203	3.187	1.928	1.922	172.9	105.5	2.765	2.711	2.592	2.606
July	3.223	3.202*	1.940	1.932*	139.7	106.9*	2.751	2.725*	2.611	2.618*
August	3.246	3.218	1.951	1.941	143.5	104.1	2.769	2.739	2.626	2.635
September	3.269	3.236	1.963	1.951	148.9	107.1	2.788	2.754	2.639	2.647
October	3.287	3.254	1.974	1.962	146.1	110.7	2.803	2.770	2.651	2.659
November	3.306	3.273	1.983	1.973	144.1	108.0	2.818	2.786	2.674	2.678
December	3.325	3.293	1.992	1.985	143.2	107.0	2.834	2.804	2.691	2.697
January 1986	3.339	3.309	2.004	1.999	143.6	106.7	2.852	2.817	2.708	2.710
February	3.359	3.327	2.017	2.009	142.5	108.6	2.866	2.832	2.724	2.723
March	3.378	3.344	2.030	2.019	142.4	108.6	2.881	2.846	2.739	2.737
April	3.392	3.361	2.037	2.030	134.9	106.6	2.892	2.860	2.757	2.753
May	3.410	3.380	2.046	2.042	135.5	109.6	2.908	2.876	2.773	2.766
June	3.428	3.395	2.055	2.051	135.2	104.5	2.924	2.887	2.789	2.783

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	2432.3	2432.6	331.7	331.7	875.2	875.2	1225.4	1225.7	1085.9	1086.0
February	2454.6	2455.8	337.9	338.0	882.3	879.4	1234.4	1238.3	1093.3	1093.2
March	2441.5	2451.1	329.6	334.7	876.3	877.1	1235.6	1239.3	1083.7	1088.2
April	2468.2	2481.4	336.2	341.0	885.7	894.1	1246.3	1246.3	1093.1	1100.0
May	2485.8	2496.5	340.1	341.9	890.2	893.4	1255.5	1261.2	1097.5	1103.4
June	2499.2	2510.4	340.4	339.3	894.1	896.5	1264.7	1274.6	1099.5	1106.2*
July	2517.3	2521.7*	342.7	340.2*	899.3	899.8*	1275.3	1281.7*	1104.1	1108.1
August	2530.3	2537.3	343.8	343.4	902.4	903.7	1284.1	1290.2	1106.9	1111.7
September	2542.7	2548.0	344.6	342.7	905.5	905.4	1292.6	1299.9	1108.9	1113.4
October	2559.4	2559.2	346.2	341.1	911.7	908.4	1301.5	1309.7	1112.3	1113.8
November	2575.2	2576.9	347.0	344.4	916.8	913.7	1311.4	1318.8	1114.8	1118.3
December	2591.0	2594.9	345.7	347.2	922.2	919.2	1323.1	1328.5	1117.3	1122.6
January 1986	2607.6	2607.1	348.4	346.6	926.8	922.8	1332.4	1337.7	1120.1	1123.6
February	2621.7	2619.2	349.5	344.3	930.9	927.0	1341.3	1347.9	1121.8	1124.3
March	2635.8	2632.2	350.6	344.2	935.0	931.2	1350.2	1356.8	1123.5	1125.7
April	2653.3	2647.1	352.7	345.7	940.2	934.5	1360.4	1366.9	1127.1	1128.0
May	2667.8	2659.1	353.1	344.0	945.2	938.6	1369.5	1376.5	1129.5	1128.6
June	2683.1	2674.1	352.0	345.8	950.1	942.1	1381.0	1386.2	1131.6	1130.7

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	110.97	110.97	16.00	16.00	11.2	11.2	70.35	70.35	24.62	24.62
February	112.74	112.10	16.27	16.12	10.6	10.6	71.42	71.02	25.04	24.95
March	110.54	111.85	16.27	16.27	10.6	10.6	70.23	71.09	24.04	24.49
April	112.42	115.35	16.40	16.71	11.0	11.1	71.29	72.42	24.73	26.23
May	113.26	114.81	16.48	16.51	10.7	11.2	71.65	72.33	25.13	25.98
June	113.61	113.94	16.43	16.00	10.8	10.5	71.97	72.36	25.21	25.58
July	114.32	114.32*	16.51	16.23*	11.0	10.5*	72.39	72.63*	25.42	25.46*
August	114.70	115.02	16.53	16.36	11.0	10.7	72.64	72.94	25.53	25.72
September	115.05	115.08	16.70	16.47	10.9	10.6	72.89	73.08	25.46	25.53
October	115.74	115.12	16.82	16.62	10.8	10.3	73.39	73.32	25.53	25.18
November	116.25	115.93	17.09	16.69	10.7	10.4	73.80	73.75	25.36	25.52
December	116.52	116.74	16.98	16.77	10.7	10.5	74.23	74.19	25.31	25.78
January 1986	117.22	116.95	17.15	16.90	10.7	10.4	74.60	74.48	25.47	25.57
February	117.69	117.01	17.24	17.03	10.6	10.1	74.93	74.82	25.52	25.16
March	118.15	117.34	17.39	17.15	10.6	10.0	75.26	75.16	25.50	25.03
April	118.83	117.79	17.49	17.21	10.6	10.0	75.68	75.43	25.66	25.15
May	119.28	117.92	17.60	17.27	10.5	9.8	76.08	75.76	25.60	24.89
June	119.54	118.42	17.44	17.31	10.5	9.9	76.48	76.04	25.62	25.07

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	1.849	1.849	1.060	1.060	1.676	1.635	316.2	341.0	189.5	205.2
February	1.631	1.647	1.123	1.135	1.636	1.624	320.6	334.3	192.3	201.1
March	1.895	1.889	1.149	1.168	1.814	1.741	326.5	333.7	195.5	200.9
April	1.938	1.933	1.178	1.155	1.793	1.704	329.4	338.3	196.7	202.9
May	1.973	1.673	1.203	1.041	1.818	1.778	336.2	343.5	199.9	205.7
June	1.957	1.705	1.192	1.027	1.778	1.713	342.7	343.5*	202.8	205.3*
July	1.959	1.800*	1.217	1.076*	1.783	1.676*	345.5	342.8	204.0	204.4
August	1.933	1.845	1.205	1.102	1.752	1.703	348.5	343.4	205.4	204.0
September	1.905	1.830	1.196	1.108	1.694	1.668	351.1	349.0	206.5	206.5
October	1.885	1.772	1.184	1.078	1.698	1.623	354.4	352.1	207.7	207.5
November	1.853	1.761	1.163	1.093	1.662	1.594	355.9	353.1	207.8	207.3
December	1.758	1.736	1.106	1.084	1.592	1.563	356.4	353.5	207.3	206.7
January 1986	1.723	1.678	1.082	1.052	1.564	1.508	355.0	353.4	205.9	205.9
February	1.721	1.662	1.093	1.037	1.585	1.524	353.6	353.2	204.6	205.2
March	1.691	1.657	1.083	1.043	1.526	1.482	352.2	352.8	203.5	204.5
April	1.656	1.623	1.064	1.026	1.448	1.461	351.9	352.7	202.7	204.0
May	1.608	1.574	1.045	0.998	1.392	1.409	352.1	353.5	202.2	204.0
June	1.553	1.563	1.021	0.992	1.377	1.422	352.4	352.9	201.8	203.4

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	130.5	128.4	57.3	57.4	128.5	155.3
February	131.7	130.4	56.4	57.8	132.5	146.0
March	133.9	128.4	57.8	59.1	134.8	146.2
April	135.2	134.5	58.7	59.3	135.5	144.5
May	136.8	135.7	59.9	61.0	139.5	146.8
June	138.3	135.0*	61.0	60.9*	143.4	147.6*
July	139.9	136.8	60.7	61.3	144.9	144.7
August	141.7	138.0	61.0	61.6	145.8	143.8
September	143.4	139.1	60.8	61.6	146.9	148.3
October	145.1	139.7	61.5	61.9	147.8	150.5
November	146.5	140.5	61.9	62.3	147.5	150.3
December	147.8	141.4	62.3	62.6	146.3	149.5
January 1986	149.0	142.8	62.0	62.3	144.0	148.3
February	150.0	143.5	61.8	62.7	141.8	147.0
March	151.1	144.3	61.9	63.1	139.2	145.4
April	152.2	145.0	62.1	63.4	137.6	144.3
May	153.1	145.8	62.4	63.8	136.6	143.9
June	153.9	146.5	62.8	64.1	135.7	142.3

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	284.7	285.8	104.99	105.45	23.14	23.63	25.64	25.25
February	285.7	286.1	103.69	102.47	29.50	29.49	26.31	26.33
March	286.3	286.2	104.63	99.54	27.42	27.21	26.82	27.77
April	286.9	286.0	105.92	99.73	27.59	25.41	27.03	27.26
May	288.1	285.0	106.38	103.03	27.68	25.64	27.26	26.98
June	290.0	284.8*	106.51	104.85	27.42	27.40	27.38	27.00
July	292.3	285.3	106.89	103.06*	28.13	26.86*	27.56	27.14*
August	293.2	286.0	106.27	103.74	28.24	27.42	27.78	27.31
September	293.6	386.9	105.42	105.33	28.02	27.81	28.01	27.53
October	294.9	288.0	104.28	104.82	27.43	27.62	28.23	27.65
November	296.5	289.2	106.07	103.67	27.92	27.08	28.36	27.73
December	297.5	290.3	107.46	104.42	28.26	27.32	28.45	27.79
January 1986	298.8	291.7	108.71	105.06	28.69	27.55	28.56	27.92
February	300.1	293.3	109.13	105.43	28.82	27.31	28.62	27.63
March	301.5	295.1	109.08	105.16	28.75	27.18	28.41	27.58
April	303.2	296.5	109.26	106.62	28.71	27.62	28.62	27.66
May	304.9	298.0	108.16	105.89	28.14	27.34	28.56	27.51
June	306.6	299.1	108.91	105.18	28.11	27.18	28.71	27.42

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	574.6	574.6	6.52	6.38	165.2	123.6	81.2	81.1
February	576.9	578.9	6.81	6.70	164.9	123.7	80.8	80.9
March	578.1	578.8	6.89	6.72	165.4	124.0	80.8	81.0
April	583.6	580.2	6.95	6.38	166.1	124.3	80.9	80.9
May	586.2	577.9	7.06	6.59	166.7	124.4	81.0	80.8
June	588.4	577.3*	7.18	7.07	167.3	124.6	81.1	80.7
July	591.4	579.6	7.29	6.97*	167.7	124.9*	81.0	80.7*
August	594.7	581.7	7.46	7.05	168.0	125.2	80.9	80.6
September	597.7	584.0	7.54	7.18	168.3	125.6	80.8	80.7
October	601.1	586.9	7.51	7.22	168.5	125.9	80.6	80.7
November	604.3	589.3	7.67	7.33	168.7	126.2	80.4	80.6
December	606.4	591.5	7.89	7.41	168.7	126.4	80.2	80.5
January 1986	610.2	594.6	7.95	7.56	168.7	126.7	80.0	80.4
February	612.3	597.9	8.03	7.68	168.9	127.0	79.9	80.4
March	614.7	601.6	8.10	7.81	169.4	127.3	79.9	80.3
April	617.9	604.8	8.23	7.85	170.3	127.5	80.1	80.2
May	621.3	608.5	8.34	7.98	171.5	127.6	80.4	80.0
June	626.1	611.5	8.46	8.07	172.6	127.6	80.7	79.8

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	316.6	316.6	292.4	292.1	323.2	323.1	228.23	228.25
February	317.7	317.7	292.1	292.1	322.5	322.2	228.96	228.96
March	319.0	319.2	292.7	292.7	322.6	322.6	229.84	230.00
April	320.2	320.4	293.7	293.6	324.0	323.8	230.53	230.23
May	321.1	321.1	294.3	294.2	325.4	325.3	231.42	230.60
June	322.1	321.8	295.1	294.2	326.5	325.2	232.13	231.12
July	322.9	322.4*	295.6	294.5*	326.7	325.3*	232.91	231.81
August	323.6	323.3	295.5	294.7	326.2	325.1	233.59	232.56
September	324.3	324.2	295.4	294.5	324.2	323.6	234.27	233.14
October	325.9	325.5	296.3	296.0	326.5	326.0	235.19	234.05
November	327.5	326.3	297.0	296.6	327.6	327.3	236.13	234.80
December	329.0	327.3	297.9	297.3	328.8	328.3	237.06	235.63
January 1986	330.3	328.5	298.9	298.0	329.6	329.1	237.89	236.57
February	331.5	329.9	299.8	298.8	330.2	330.0	238.65	237.53
March	332.8	331.0	300.8	299.5	330.9	330.7	239.40	238.42
April	334.4	332.3	301.9	300.2	332.4	332.0	240.21	239.29
May	336.0	333.6	303.0	300.9	333.9	333.4	241.07	240.21
June	337.5	334.9	304.1	301.8	335.3	334.9	241.87	241.10

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	224.0	224.0	178.1	178.1	220.0	220.0	244.2	244.2	166.9	166.2
February	224.5	224.6	179.4	179.6	219.9	219.7	245.1	245.3	166.7	166.2
March	225.1	225.3	179.8	179.5	220.1	220.5	245.4	246.0	167.0	166.2
April	225.8	225.6	180.2	179.2	220.8	221.1	246.5	246.6	166.5	166.7
May	226.5	226.3	180.2	178.5	221.4	221.3	247.7	248.3	168.2	167.0
June	227.3	226.9*	180.3	178.7*	222.0	221.2*	248.8	249.4*	169.0	167.3*
July	228.0	227.6	180.4	179.0	222.5	221.5	249.9	250.4	169.4	167.7
August	228.6	228.2	180.7	179.4	222.8	221.9	250.9	251.5	169.7	168.3
September	229.3	228.9	181.0	179.7	223.2	222.0	252.0	252.5	170.0	169.0
October	230.1	229.8	181.4	180.9	224.2	222.2	253.1	253.6	170.6	169.7
November	231.0	230.4	181.4	181.4	225.0	222.6	254.2	254.6	171.3	170.3
December	231.9	231.1	181.2	181.9	225.9	223.0	255.2	255.7	171.9	171.0
January 1986	232.8	232.0	181.6	182.3	226.5	223.7	256.4	256.8	172.4	171.6
February	233.7	233.0	182.2	182.6	227.3	224.5	257.6	257.8	172.8	172.1
March	234.6	233.8	182.7	182.8	228.0	225.3	258.9	258.9	173.1	172.5
April	235.4	234.7	183.0	183.1	228.6	226.0	260.0	260.0	173.6	172.9
May	236.2	235.6	183.2	183.4	229.3	226.7	261.1	261.2	174.1	173.3
June	237.1	236.5	183.4	183.8	230.0	227.5	262.2	262.3	174.6	173.5

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	-10.29	-10.29	166.4	166.3	3814	3808	1671	1668	2.3	1.0
February	-11.45	-11.45	167.5	167.7	3814	3805	1666	1662	0.8	0.1
March	-11.50	-11.05	168.2	167.6	3832	3819	1667	1660	-0.3	-2.8
April	-11.15	-11.85	168.5	166.6	3869	3842	1678	1669	1.7	-2.6
May	-10.81	-12.67	169.0	167.8	3903	3850	1687	1670	6.8	0.2
June	-10.52	-12.16*	168.8	168.5*	3932	3868	1694	1674	4.5	2.6
July	-10.68	-12.38	169.0	169.2	3956	3891	1699	1679	2.6	3.4
August	-11.08	-12.18	168.4	169.6	3977	3912	1703	1682	2.3	3.9
September	-11.53	-12.09	168.0	169.3	3999	3935	1707	1688	2.0	2.0
October	-11.69	-12.31	167.7	169.0	4022	3961	1710	1692	5.3	0.8
November	-11.24	-11.96	168.2	168.4	4045	3987	1713	1698	8.8	2.6
December	-11.13	-11.73	168.6	168.6	4064	4012	1714	1703	8.9	3.9
January 1986	-11.25	-11.98	169.1	168.9	4083	4035	1716	1706	10.6	3.5
February	-11.50	-12.04	169.5	169.3	4102	4056	1719	1708	12.9	5.3
March	-11.11	-11.73	169.5	168.8	4122	4075	1722	1709	13.5	5.7
April	-11.26	-11.59	169.2	168.3	4159	4097	1731	1712	14.2	6.8
May	-11.05	-11.58	168.8	167.9	4185	4118	1736	1714	14.9	7.4
June	-10.98	-11.41	168.5	167.5	4211	4132	1741	1714	13.8	7.2

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	218.4	218.2	563.0	562.7	2400.4	2398.9	8.35	8.35	8.00	8.00
February	219.3	219.2	569.2	569.4	2420.6	2421.0	8.50	8.50	8.39	8.39
March	222.0	221.7	571.9	572.1	2427.6	2429.2	8.58	8.58	8.90	8.90
April	223.1	221.9	574.6	574.9	2435.7	2427.4	8.33	8.27	8.46	8.23
May	224.0	223.7	577.9	581.6	2457.3	2444.6	8.45	7.97	8.27	7.65
June	224.9	227.4	581.3	591.1	2479.5	2472.8	8.43	7.53	8.25	7.09
July	226.2	228.3*	584.7	597.2*	2492.6	2490.5*	8.72	7.82*	8.72	7.25*
August	227.4	229.0	587.4	598.7	2509.2	2506.8	9.25	7.93	9.04	7.42
September	228.7	229.8	589.9	599.8	2526.6	2519.3	9.83	8.06	9.23	7.64
October	230.0	230.7	592.3	602.1	2543.1	2536.9	9.65	8.23	9.29	7.79
November	231.1	231.8	595.5	604.8	2559.7	2554.7	9.68	8.42	9.25	7.83
December	232.2	232.9	598.8	606.8	2575.8	2570.0	9.52	8.53	9.22	7.94
January 1986	233.4	234.0	601.2	609.4	2592.7	2588.0	9.29	8.43	8.95	7.75
February	234.5	235.1	605.7	612.3	2610.6	2606.1	9.10	8.19	8.72	7.44
March	235.6	236.3	609.9	615.4	2628.8	2624.3	9.06	8.07	8.61	7.26
April	237.0	236.9	613.8	616.8	2647.9	2637.4	9.21	8.15	8.85	7.32
May	238.8	238.3	615.7	619.4	2664.4	2655.9	9.35	7.96	8.89	7.30
June	240.3	239.4	617.5	622.0	2681.1	2674.5	9.43	7.67	8.95	7.09

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1985	12.08	12.08	9.51	9.51	8.03	8.03	8.14	8.14	10.62	10.62
February	12.13	12.13	9.53	9.65	8.54	8.54	8.69	8.69	10.50	10.50
March	11.96	12.56	9.69	9.77	8.90	8.90	9.07	9.07	10.50	10.50
April	11.92	12.23	9.53	9.42	8.42	8.37	8.63	8.49	10.50	10.50
May	12.15	11.72	9.72	8.93	8.36	7.83	8.49	7.92	10.50	10.31
June	12.37	10.94	9.92	8.59*	8.38	7.35	8.56	7.44	10.50	9.78
July	12.48	10.86*	10.05	8.80	8.81	7.67*	8.96	7.85*	10.86	9.50*
August	12.60	10.99	10.14	8.92	9.32	7.85	9.47	8.04	11.27	9.50
September	12.68	11.05	10.25	8.93	9.85	8.05	9.98	8.23	11.50	9.50
October	12.72	11.26	10.21	9.18	9.62	8.27	9.76	8.44	11.50	9.72
November	12.70	11.35	10.16	9.26	9.60	8.46	9.75	8.63	11.50	10.00
December	12.68	11.31	10.09	9.21	9.47	8.51	9.59	8.72	11.50	10.00
January 1986	12.49	11.17	9.84	9.06	9.15	8.37	9.32	8.54	11.50	10.00
February	12.42	10.96	9.70	8.87	9.10	8.08	9.26	8.26	11.23	10.00
March	12.36	10.81	9.59	8.76	9.03	7.93	9.20	8.14	11.00	10.00
April	12.47	10.86	9.76	8.85	9.18	8.04	9.35	8.27	11.00	10.00
May	12.51	10.78	9.82	8.74	9.36	7.92	9.54	8.15	11.00	10.00
June	12.55	10.66	9.89	8.53	9.45	7.56	9.68	7.75	10.00	10.00

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

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MONTHLY PROJECTIONS
AUGUST 1985

Dr. Donald Ratajczak, Director
For Release: September 6, 1985

AUTOMOBILES AID PRODUCTION REBOUND IN AUGUST

Two sources of information became available after the data had been accumulated for our latest anticipations. Both were related, at least partially, to the automobile industry, and both showed significantly greater strength than had been anticipated. As a result, the economy will rebound more sharply in the third quarter and continue strong production gains through the fourth quarter of 1985. Our tentative projections for the two quarters are an increase of 3.6% in the summer months and 4.1% in the fall.

The first and most far-reaching report was the Employment Situation release for August. This report showed a 288,000 increase in payroll employment and the first meaningful increase in manufacturing employment since the beginning of this year. Employment gains were widespread, with the diffusion index showing gains for 59.7% of all industries. At the same time, wage pressures remained subdued, as the hourly earnings index showed no increase.

The auto industry enters into the Employment Situation as a result of a sharp 6.7% increase in hours worked and a 24,000 addition to payrolls. These increases are caused by fewer assembly plants being closed for model changeover during the summer months than in the past, when the seasonal adjustment factors were developed. As a result, production after seasonal adjustment is being shifted to the third quarter at the expense of the winter and spring. This will also have an influence upon GNP. Nevertheless, employment was strong even after adjustment for these special automobile seasonal problems. The manufacturing workweek increased along with the workweek for all private nonfarm workers. Economic reports will be especially strong for August. Industrial production will be up at least 0.6%, personal income probably will increase 0.7%, while durable manufacturing should show a significant rebound in shipments. In addition, employment gains in the machinery industries suggest that decay in that sector is nearing an end. Indeed, the employment gains suggest that orders are beginning to build.

The second report showing significant August strength was automobile sales. As a result of financing incentives, domestic automobiles sales surged to a more than 13 million annual rate in the last ten days. This caused domestic sales to rise by 9.6 million at annual rates. Imports held their own, showing a 2.8

million sales gain. By the middle of September, this rapid sales growth will liquidate most of the 1985 model cars carrying incentives. Sales should then slow abruptly during the fourth quarter. To the extent that the rapid incentive-induced sales generate increased production, economic activity will be stronger than originally projected. To a larger extent, however, sales growth in August and September will lead to depleted inventory and no significant changes from already robust production schedules for the fourth quarter.

The surge in consumer activity during the latter part of August helped to sustain unusually rapid money growth. The Federal Reserve, not yet seeing any signs of increasing activity, continued to accommodate these intensifying expenditures patterns. Now that the employment report for August suggests that economic activity is rebounding, and an extension of the workweek suggests that employment will continue to grow robustly for the next few months, the Federal Reserve probably will be less reluctant to restrain money growth. This will probably lead to increasing interest rates over the next six months along with a gradual slowing in the growth of the money stock. This increase in interest rates is not expected to be dramatic, but the downward trend in rates almost certainly will be reversed until the robust production schedules in the automobile industry once again are reduced early in 1986.

More rapid economic growth than originally projected probably will coincide with a more significant rebound in profitability than had been assumed. Operating profits after taxes should rebound by more than $5 billion in the third quarter and show a further $7 billion advance in the fall. These increases should be more than sufficient to offset the adverse effects from rising rates of interest. Therefore, equity values probably will challenge 1400 early in the fourth quarter. With interest rates and operating profits after tax liabilities both declining in 1986, a downward drifting equity market is likely.

Quarterly Profile of GNP

	1985-2	1985-3	1985-4	1986-1	1986-2	1986-3
Real:	2.0	3.6	4.1	2.9	1.0	1.2
Price:	2.7	3.0	3.9	4.3	4.5	4.5
Nominal:	4.7	6.7	8.2	7.3	5.6	5.7

Monthly Statistical Highlights for August 1985

Personal income +0.7%; savings rate 3.2%; personal consumption +1.0%; retail sales +1.7%; housing starts +2.6%; housing permits -0.6%; construction expenditures +0.3%; business inventories +0.1%; orders for durable goods +1.6%; orders for nondefense capital goods +2.0%; industrial production +0.6%; CPI +0.1%; PPI -0.1%; consumption deflator +0.1%; leading indicators +0.6%; real GNP +4.4%; M1 +17.8%; M2 +10.5%.

Monthly Statistical Highlights for September 1985

Payroll employment +235,000; index of hours worked +0.3%; household employment +352,000; civilian unemployment rate 7.1%; personal income +0.5%; savings rate 3.5%; personal consumption -0.2%; retail sales -0.8%; auto sales 11.5 million; housing starts +2.4%; housing permits -2.0%; construction expenditures +0.9%; business inventories +0.2%; orders for durable goods -2.7%; orders for nondefense capital goods +1.3%; industrial production +0.2%; CPI +0.2%; PPI -0.1%; consumption deflator +0.2%; leading indicators +0.2%; real GNP +4.4%; M1 +9.5%; M2 +8.6%.

COMMENTARY

Employment Situation - Despite seasonal distortions in motor vehicles, the payroll employment increase for August cannot be dismissed as a statistical abberation. Primary metals showed an employment decline because of a strike at one large producer while the United Airlines strike occurred during the survey week and impacted the transportation services sector. Now that the United strike is settled, a significant increase in payrolls is expected. While a portion of the increased workweek is the result of distortions in motor vehicles, the workweek appears to have increased in most industries. Only the apparel industry continues to feel the impact of import penetration. However, a more correct interpretation of the performance would be that import penetration remains significant but inventory liquidations that developed in the early months of 1985 have now been completed. If so, a burst in production activity should be anticipated in the next several months. After that time, however, activity should once again show minimal gains.

A significant spurt is now expected in both the employment and labor force statistics for September as a result of a return to more normal participation rates for teenagers and young adults. Apparently, many young adults went to Europe rather than the labor markets. As a result, seasonal factors showed a smaller increase in employment and the labor force than was warranted. In addition, this shrinkage of a part of the labor force that has high unemployment probably added to the decline in the unemployment rate. We are, therefore, anticipating a slight rebound in unemployment in September although the employment report should remain relatively strong.

Personal Income & Outlays - Personal income was stronger than anticipated in July as a result of a retroactive payment for Social Security recipients. The absence of this payment in August should cause transfer payments to remain flat in that month. However, a favorable shift in the composition of payroll employment to high wage earning industries and a significant expansion of the number of people receiving wages should cause wage earnings to expand by nearly one percent. This should generate personal income gains of nearly 0.7%. Interest income, which has been dropping sharply through the spring should show a modest firming in August. On the other hand, farm income will continue to deteriorate.

Consumption & Retail Trade - Automobile sales during the last 10 days of August were unusually strong as a result of special financing incentives. We now believe that incentive-bearing automobiles will be less available in September and that sales will return to more normal levels in October. However, the value of auto sales in August apparently were up by more than 10%. They should retrench by 5% in September and then another 5% in October. This will result in a sharp 1.7% increase in retail sales during August followed by a 0.7% retrenchment in September and another 0.3% retrenchment in October. While these auto sales appear to have a significant impact on economic activity, they actually are altering the inventory holding of the industry. Production schedules in both the third and fourth quarter are not expected to be materially changed by this sales surge. Therefore, the actual impact upon GNP, while stimulative, should be slight.

Aside from automobile sales, nondurables should show minimal growth in August and September as a result of actual price declines. At the same time, more rapid growth is expected in services consumption following a slowing in the July report.

Construction - Now that mortgage rates no longer are declining, housing starts are expected to drift upward through the remainder of this year. Problems with multi-family incentives should cause a significant slowing in starts in 1986. Permits remain unusually strong relative to starts, suggesting that builders are taking permits for multi-family units but will only hustle to build if tax reform possibilities increase.

Residential construction was surprisingly strong in July but is expected to slow modestly in August as a result of sluggish housing starts in recent months. The employment mix, however, does not confirm this slowing in residential activity. On the other hand, the surge in public construction must be nearing an end. Highway activity will begin trending downward in the months ahead, causing minimal gains for public construction from current levels. A spurt is expected for nonresidential construction in the next few months as an increase in orders is converted into spending gains during the late summer and fall. More significant slowing in nonresidential spending is expected in 1986, although orders do not yet suggest an actual downturn in construction activity at that time.

Business Activity - The manufacturing report showed a renewed decline in manufacturing inventories during July. Inventory liquidations in manufacturing may now have been completed. This probably is the major reason why manufacturing employment began strengthening in August. Further strengthening is suggested in the next few months.

Orders for durable goods in August are expected to rebound sharply as a result of two forces. First, increases in machinery employment suggest that orders also must be firming. Second, significant orders for the Bl bomber should be contained in the August report. Defense orders then should fall sharply in September, causing a significant decline in durable goods orders during that month.

The weakness in shipments for durable goods in July appears to be an abberation. Employment statistics suggest that shipments rebounded notably in August.

Although our projections for industrial production show only a moderate rebound in August, the same seasonal distortions which influence the employment report should be impacting the consumer goods production component of industrial production. As a result, industrial production will rebound more than 0.6% and capacity utilization will exceed 81%.

Prices - Food prices fell sharply in August and probably merely stabilized in September. At the same time, energy prices began falling again after seasonal adjustment. For that reason, inflationary pressures are expected to remain very modest into the fall. At some point, however, unusually sharp liquidations of animals should begin to put upward pressures upon meat prices. Our current anticipation is that meat prices will begin accelerating during the early months of 1986.

On the other hand, the dollar appears to remain unusually firm as prospects for increased economic activity develop. This will prevent the trade deficit from improving further from its unusually low July performance. Record trade deficits are possible again before the end of 1985.

FINANCIAL MARKETS

Now that manufacturing has completed its inventory liquidations, increasing short-term interest rates should be expected. Short-term interest rates have been prevented from rising by Federal Reserve accommodations. Recent rapid growth in the money stock has been difficult to interpret. Without any evidence that economic activity has been stimulated, the Federal Reserve has chosen to accommodate money demand. The recent spurt in production and consumer activity, especially in the latter half of August, has led to unusually rapid money growth. The Federal Reserve probably will continue modest accommodation through September. However, interest rates almost certainly will be trending upward even if the degree of increase is not anticipated to be great. Moreover, as the consumer once again backs away from the market toward the end of the year, Federal Reserve restraint will coincide with reduced money demand. The results will be a sharp slowing in the money stock late in 1985 and early in 1986. This reduced money growth along with a return to more sluggish economic growth will induce declines in interest rates by the middle of 1986.

Supply has been unusually dramatic for tax-exempt issues, causing the ratio of the bond buyer to corporate AAAs to rise in excess of .83. This ratio probably will rise slightly further in the next few months as interest rates gradually drift upward. However, a decline in tax-exempt rates then is anticipated after short-term interest rates begin declining.

Equity Markets - Improved prospects for economic activity in the next few months suggest the probability of one more spurt in equity values in the next few months. Our stock market formula now suggests that a serious attack upon the 1400 Dow Jones barrier is likely. Moreover, some of the machinery and technology issues, which appear to be ending their inventory liquidation phase, should perform especially well. On the other hand, consumer-based stocks and interest sensitive securities should be avoided. It now appears that the stock market has not peaked in the summer month but will reach its highest levels early in the fall. Equity values then are expected to drift modestly downward through much of 1986.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	97120	97120	115.6	115.6	106945	106945	7.3	7.3	164.8	164.8
May	97386	97421	116.2	116.2	106960	106960	7.3	7.3	165.0	164.9
June	97466	97473	116.5	116.3	106370	106370	7.3	7.3	165.4	165.7
July	97639	97722	116.8	115.9	106865	106862	7.3	7.3	165.9	165.5
August	97952	98010	117.0	116.7	107180	107172	7.3	7.0	166.4	165.5
September	98265	98068NR	117.3	116.5NR	107494	107324NR	7.3	7.3NR	166.8	166.4NR
October	98429	98235	117.6	116.7	107765	107522	7.2	7.3	167.4	166.9
November	98652	98417	117.9	116.9	108079	107769	7.2	7.2	168.0	167.4
December	98869	98625	118.1	117.1	108246	108041	7.2	7.2	168.7	167.8
January 1986	99027	98803	118.3	117.3	108453	108246	7.2	7.2	169.3	168.3
February	99196	99012	118.5	117.5	108689	108484	7.1	7.2	170.0	168.9
March	99311	99176	118.7	117.7	109237	108692	7.1	7.2	170.6	169.4
April	99507	99359	118.8	117.9	109534	108901	7.0	7.2	171.1	170.0
May	99648	99544	119.0	118.1	109475	109087	7.0	7.2	171.6	170.6
June	99798	99736	119.2	118.3	109107	109314	7.0	7.2	172.2	171.2
July	99943	99925	119.3	118.6	109771	109568	7.0	7.1	172.8	171.8
August	100126	100116	119.5	118.8	109969	109783	7.0	7.1	173.4	172.4
September	100336	100305	119.6	119.0	110062	110009	7.0	7.1	174.0	173.0

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	3.186	3.187	1.903	1.903	145.7	145.7	2.721	2.721	2.575	2.575
May	3.164	3.164	1.908	1.908	171.8	171.8	2.765	2.765	2.594	2.594
June	3.176	3.176	1.917	1.919	90.8	90.8	2.696	2.696	2.606	2.606
July	3.198	3.189	1.930	1.921	98.8	91.2	2.722	2.708	2.623	2.617
August	3.220	3.207*	1.942	1.932*	109.6	95.8*	2.744	2.725*	2.634	2.629*
September	3.243	3.221	1.953	1.941	118.9	86.9	2.765	2.736	2.646	2.649
October	3.261	3.239	1.964	1.951	115.4	95.4	2.778	2.750	2.663	2.655
November	3.280	3.257	1.975	1.961	115.5	93.5	2.792	2.765	2.677	2.672
December	3.300	3.278	1.986	1.970	107.3	91.1	2.803	2.782	2.696	2.691
January 1986	3.311	3.291	1.996	1.980	111.1	86.7	2.820	2.793	2.709	2.706
February	3.335	3.312	2.006	1.991	120.1	98.4	2.842	2.815	2.722	2.717
March	3.363	3.331	2.015	2.001	130.0	102.8	2.864	2.831	2.734	2.728
April	3.375	3.353	2.025	2.012	123.3	105.5	2.874	2.850	2.751	2.745
May	3.385	3.370	2.034	2.023	115.3	104.1	2.883	2.864	2.768	2.760
June	3.396	3.387	2.043	2.035	107.6	99.1	2.892	2.877	2.784	2.778
July	3.413	3.405	2.054	2.048	106.3	95.3	2.908	2.892	2.802	2.797
August	3.426	3.419	2.065	2.059	100.7	99.0	2.921	2.907	2.820	2.808
September	3.440	3.435	2.076	2.070	98.8	97.7	2.934	2.920	2.835	2.822

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* = This item and those beyond it are projections.
NR = Revisions were not made to reflect latest report.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	2482.7	2482.7	341.0	341.0	894.1	894.1	1247.6	1247.6	1100.3	1100.3
May	2499.7	2499.7	342.7	342.7	891.2	891.2	1265.8	1265.8	1104.6	1104.6
June	2510.1	2510.1	336.2	336.2	892.1	892.1	1281.8	1281.8	1105.1	1105.1
July	2526.4	2520.5	339.6	338.8	898.4	893.0	1288.4	1288.7	1109.0	1107.6*
August	2536.2	2531.0*	340.9	339.4*	903.8	896.2*	1291.5	1295.4*	1110.9	1111.0
September	2546.6	2549.6	343.7	346.0	908.3	900.3	1294.6	1303.3	1113.5	1117.3
October	2561.5	2553.5	344.1	340.3	910.8	903.6	1306.6	1309.6	1116.1	1114.3
November	2573.6	2568.6	342.7	342.3	911.6	906.8	1319.3	1319.5	1117.5	1117.2
December	2591.1	2586.3	344.6	344.8	914.5	910.7	1332.0	1330.8	1121.2	1121.3
January 1986	2603.1	2600.5	345.5	346.6	916.9	914.2	1340.7	1339.7	1122.0	1124.1
February	2615.0	2609.7	346.3	344.6	919.7	916.5	1349.0	1348.6	1122.8	1123.9
March	2626.0	2620.2	346.2	342.2	922.5	921.1	1357.3	1356.9	1123.2	1124.3
April	2641.2	2635.0	345.5	341.9	927.6	925.9	1368.1	1365.8	1125.8	1126.0
May	2656.7	2648.9	345.6	343.3	932.5	930.7	1378.6	1374.9	1128.1	1128.4
June	2671.9	2665.4	346.0	345.4	937.4	935.5	1388.5	1384.5	1130.2	1131.8
July	2687.9	2682.9	346.8	346.5	943.7	941.2	1397.4	1395.2	1132.7	1135.1
August	2705.3	2693.0	348.1	343.7	949.0	944.3	1408.2	1405.0	1135.7	1134.6
September	3719.0	2706.1	348.5	343.5	951.6	947.8	1418.9	1414.8	1137.2	1135.9

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	115.35	115.35	16.71	16.71	11.1	11.1	72.42	72.42	26.23	26.23
May	114.81	114.88	16.51	16.66	11.2	11.3	72.33	72.10	25.98	26.13
June	113.94	113.28	16.00	16.08	10.5	10.3	72.36	71.56	25.58	25.64
July	115.14	113.74	16.40	16.52	10.5	10.3	72.85	71.72	25.89	25.51
August	115.74	114.31*	16.46	16.57*	10.6	10.4*	73.29	71.98*	25.99	25.76*
September	116.45	115.46	16.59	16.50	10.7	10.9	73.65	72.31	26.21	26.65
October	116.71	115.01	16.87	16.63	10.4	10.3	73.86	72.57	25.98	25.81
November	116.60	115.52	16.80	16.69	10.5	10.3	73.92	72.83	25.88	26.00
December	117.07	116.14	16.71	16.83	10.7	10.4	74.16	73.14	26.20	26.17
January 1986	117.38	116.65	16.85	16.80	10.6	10.5	74.35	73.42	26.18	26.43
February	117.71	116.59	17.10	16.89	10.4	10.3	74.58	73.61	26.03	26.09
March	117.92	116.66	17.13	16.96	10.3	10.1	74.81	73.98	25.98	25.72
April	118.25	117.00	17.27	17.08	10.2	10.0	75.22	74.36	25.76	25.56
May	118.66	117.57	17.46	17.15	10.0	10.0	75.62	74.75	25.58	25.67
June	119.10	118.21	17.40	17.23	10.1	10.1	76.01	75.13	25.69	25.85
July	119.71	118.81	17.39	17.30	10.1	10.1	76.52	75.59	25.80	25.92
August	120.30	118.70	17.48	17.32	10.1	9.9	76.95	75.84	25.87	25.54
September	120.46	118.96	17.64	17.45	10.0	9.8	77.17	76.12	25.76	25.39

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CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	1.933	1.933	1.155	1.155	1.704	1.704	338.3	338.3	202.9	202.9
May	1.675	1.681	1.041	1.039	1.778	1.778	343.5	347.4	205.7	208.0
June	1.705	1.694	1.027	1.034	1.713	1.712	343.5	345.4	205.3	205.5
July	1.800	1.654	1.072	1.045	1.675	1.696	345.5	349.5	207.1	208.6
August	1.808	1.695*	1.095	1.070*	1.682	1.686*	348.7	350.5*	209.4	209.0*
September	1.793	1.736	1.118	1.093	1.661	1.653	352.7	353.5	211.5	210.3
October	1.806	1.754	1.126	1.107	1.668	1.661	353.5	355.4	211.4	210.9
November	1.792	1.742	1.132	1.123	1.643	1.635	355.8	357.9	212.3	211.8
December	1.777	1.741	1.117	1.135	1.629	1.611	358.2	359.2	213.1	211.9
January 1986	1.752	1.727	1.102	1.126	1.582	1.615	357.2	359.3	212.1	211.5
February	1.725	1.704	1.082	1.132	1.565	1.572	357.1	360.6	211.7	211.7
March	1.698	1.666	1.061	1.107	1.569	1.553	357.2	360.8	211.4	211.5
April	1.643	1.605	1.036	1.068	1.542	1.519	355.0	359.7	209.7	210.2
May	1.591	1.599	1.015	1.073	1.496	1.427	354.0	359.4	208.7	209.6
June	1.539	1.588	0.994	1.080	1.483	1.432	352.9	358.8	207.7	208.7
July	1.535	1.589	0.982	1.093	1.442	1.445	351.8	357.9	206.6	207.8
August	1.553	1.619	0.985	1.123	1.435	1.456	350.0	358.1	205.2	207.5
September	1.565	1.618	1.012	1.115	1.443	1.473	348.9	359.0	204.2	207.5

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	134.5	134.5	59.3	59.3	144.5	144.5
May	135.7	132.6	61.0	63.7	146.8	151.1
June	135.0	129.9	60.9	64.8	147.6	150.7
July	138.1	130.2	59.9	66.1	147.5	153.2
August	141.4	133.4*	59.0	65.3*	148.3	151.8*
September	144.7	135.2	59.0	65.7	149.0	152.6
October	143.7	136.7	59.7	66.2	150.1	152.5
November	144.3	137.8	60.3	65.9	151.2	154.2
December	145.0	139.4	60.9	65.5	152.3	154.3
January 1986	145.8	141.1	60.5	65.2	150.9	153.0
February	146.6	141.9	60.7	66.1	149.8	152.6
March	147.3	142.6	61.0	66.4	148.9	151.8
April	148.0	142.5	60.5	67.2	146.5	150.0
May	148.7	143.6	61.0	67.3	144.3	148.5
June	149.3	144.8	61.4	67.5	142.2	146.5
July	150.0	145.5	61.5	67.2	140.3	145.2
August	150.3	145.9	61.7	67.1	138.0	145.1
September	150.2	146.4	61.7	67.4	137.0	145.2

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	286.0	286.0	99.73	99.84	25.41	25.46	27.26	27.10
May	285.0	284.9	103.03	102.97	25.64	25.59	26.98	26.81
June	285.0	285.7	104.85	106.78	27.40	27.98	27.00	27.48
July	285.4	285.2	103.05	104.36	26.93	26.47	27.16	26.77
August	286.0	285.7*	104.96	106.03*	27.45	27.02*	27.33	27.06*
September	286.7	286.3	103.82	103.17	27.62	27.36	27.50	27.23
October	287.8	286.9	103.56	105.42	27.55	27.25	27.65	27.39
November	288.7	287.6	104.73	104.63	27.82	27.68	27.85	27.51
December	289.6	288.5	104.25	105.27	27.83	27.61	28.04	27.56
January 1986	290.3	289.1	104.17	103.68	27.54	26.82	28.10	27.50
February	291.5	290.2	103.28	104.43	27.59	26.80	28.00	27.41
March	292.8	291.5	105.43	106.08	28.12	27.13	28.09	27.48
April	294.0	292.8	104.81	107.73	28.10	27.51	28.18	27.62
May	295.3	294.1	105.36	107.92	28.42	27.59	28.27	27.75
June	296.8	295.7	105.15	108.52	28.40	27.46	28.35	27.83
July	298.1	297.3	105.72	106.65	28.63	27.25	28.44	27.72
August	299.5	298.9	105.07	105.47	28.55	27.02	28.52	27.54
September	300.5	300.3	104.96	105.93	28.46	27.27	28.60	27.57

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	580.2	580.2	6.38	6.35	124.3	124.1	80.9	80.8
May	577.9	577.8	6.59	6.58	124.4	124.3	80.8	80.8
June	577.9	579.8	7.07	7.22	124.6	124.7	80.7	80.8
July	578.8	579.6*	7.00	6.85	124.8	124.9	80.7	80.8
August	580.3	580.1	7.03	7.01*	125.2	125.3*	80.7	80.9*
September	581.5	581.4	7.07	7.09	125.6	125.6	80.8	80.9
October	583.2	583.0	7.15	7.22	126.2	125.9	81.0	80.9
November	585.1	584.4	7.28	7.16	126.9	126.2	81.3	81.0
December	586.9	586.0	7.42	7.29	127.4	126.5	81.4	81.0
January 1986	589.2	587.2	7.53	7.38	127.4	126.9	81.1	81.0
February	592.0	589.8	7.63	7.45	127.5	127.1	81.0	81.0
March	594.2	592.7	7.75	7.56	127.5	127.3	80.7	81.0
April	596.7	595.3	7.84	7.71	127.6	127.6	80.6	81.1
May	599.3	597.9	7.93	7.73	127.7	127.9	80.5	81.2
June	601.3	601.6	8.01	7.92	127.8	128.2	80.3	81.2
July	603.4	605.3	8.15	8.03	127.8	128.5	80.1	81.3
August	605.9	608.6	8.22	8.19	127.9	128.8	80.0	81.3
September	607.8	611.5	8.30	8.26	128.0	128.9	79.9	81.1

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	-11.85	-11.85	166.6	166.9	3842	3842	1669	1669	-1.0	-2.6
May	-12.67	-12.67	167.8	167.4	3853	3853	1671	1672	0.3	0.2
June	-10.99	-13.42	168.5	168.0	3871	3871	1675	1674	4.9	2.6
July	-11.46	-10.51	169.2	168.7	3890	3884	1679	1676	2.2	2.9
August	-12.96	-11.90	169.6	169.4*	3912	3905	1683	1682	0.7	4.2
September	-12.95	-12.36	169.3	170.0	3937	3933	1688	1688	1.3	3.1
October	-13.08	-12.76	169.0	169.6	3964	3960	1695	1694	-0.7	0.9
November	-13.17	-13.14	168.4	169.3	3986	3979	1701	1697	-3.4	0.5
December	-12.27	-13.28	168.6	169.5	4008	4011	1706	1704	-6.0	-1.2
January 1986	-13.08	-13.29	168.9	169.6	4027	4031	1707	1707	-6.2	-1.7
February	-12.96	-13.17	169.3	169.4	4052	4055	1711	1711	-6.9	-2.4
March	-12.88	-12.86	168.8	169.0	4076	4075	1714	1713	-5.8	-2.9
April	-13.02	-12.89	168.9	169.4	4089	4089	1714	1712	-3.1	-3.8
May	-12.99	-12.82	168.2	168.1	4107	4105	1716	1713	-0.8	-3.0
June	-12.87	-12.61	167.3	168.3	4124	4134	1717	1719	-1.1	-3.9
July	-12.66	-12.43	167.5	168.2	4145	4153	1719	1721	-4.3	-4.8
August	-12.29	-12.28	167.8	168.0	4167	4165	1722	1719	-5.6	-6.1
September	-12.08	-12.21	168.4	168.5	4190	4181	1724	1719	-6.2	-6.4

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	320.4	320.4	293.6	293.6	323.8	323.8	230.23	230.17
May	321.1	321.1	294.2	294.2	325.3	325.3	230.60	230.43
June	321.8	321.8	294.2	294.2	325.2	325.2	231.12	231.25
July	322.6	322.4	294.5	294.8	325.2	324.2	231.75	231.69
August	323.3	322.7*	294.3	294.5*	324.9	324.2*	232.41	232.20
September	324.0	323.3	294.1	294.3	324.0	322.3	233.22	233.05
October	325.0	324.7	294.8	295.0	325.7	324.6	233.84	233.84
November	326.2	325.7	295.3	295.2	326.2	325.0	234.35	234.58
December	327.4	326.8	295.4	295.1	326.6	325.6	234.98	235.36
January 1986	328.6	327.7	296.4	295.6	327.3	326.1	235.90	236.18
February	329.8	329.0	297.2	296.0	328.0	326.9	236.86	237.02
March	331.0	330.1	298.0	296.6	328.7	327.8	237.81	237.84
April	332.5	331.5	298.6	297.1	329.3	328.5	238.54	238.86
May	344.0	332.6	299.1	297.8	329.6	329.3	239.39	239.62
June	335.4	333.7	299.7	298.4	329.9	329.9	240.23	240.44
July	336.3	334.9	300.5	299.1	330.5	330.7	241.11	241.33
August	337.2	336.2	301.6	299.9	332.3	331.5	242.05	242.29
September	338.2	337.5	301.5	300.5	331.1	330.2	242.98	243.17

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	225.6	225.6	179.2	179.2	221.1	221.1	246.6	246.7	166.7	166.7
May	226.3	226.3	178.5	178.3	221.3	221.1	248.3	248.5	167.0	167.0
June	227.3	227.1	178.1	178.4	220.9	221.1	250.0	249.8	167.3	168.1
July	227.8	227.6*	178.6	178.6*	221.4	220.9*	250.8	250.9*	166.8	167.5
August	228.3	227.8	179.4	178.6	221.9	220.6	251.6	251.7	166.5	167.7*
September	228.7	228.2	180.1	178.5	222.3	220.7	252.4	252.8	166.8	168.1
October	229.5	229.2	180.3	179.3	222.4	221.0	253.6	254.0	167.2	168.5
November	230.3	229.9	180.2	179.8	222.5	221.4	254.8	255.1	167.6	169.0
December	231.1	230.7	180.4	180.3	222.8	221.7	256.0	256.3	168.1	169.5
January 1986	232.0	231.3	180.8	180.5	223.5	222.2	257.1	257.3	168.4	169.9
February	232.9	232.2	181.1	180.8	224.7	222.8	258.2	258.4	168.7	170.3
March	233.8	233.0	181.4	181.1	225.9	223.3	259.3	259.5	169.0	170.6
April	234.6	234.0	181.7	181.3	226.2	223.9	260.6	260.7	169.3	171.1
May	235.5	234.7	181.9	181.6	226.6	224.6	261.8	261.9	169.6	171.5
June	236.4	235.5	182.2	182.0	227.0	225.1	263.0	263.0	169.9	171.9
July	237.3	236.4	182.7	182.4	227.8	225.8	264.2	264.1	170.3	172.2
August	238.2	237.3	183.0	182.7	228.7	226.5	265.4	265.3	170.6	172.6
September	239.1	238.2	183.3	183.0	229.6	227.1	266.6	266.5	170.9	173.0

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	221.9	222.6	574.9	574.9	2427.4	2427.3	8.27	8.27	8.23	8.23
May	223.7	224.0	581.6	581.6	2444.6	2444.6	7.97	7.97	7.65	7.65
June	227.4	227.6	591.1	591.2	2472.8	2472.6	7.53	7.53	7.09	7.09
July	228.3	227.8	595.6	595.8	2495.6	2490.4	7.81	7.88	7.36	7.16
August	229.0	228.8*	596.7	604.0*	2503.5	2510.2*	7.94	7.82*	7.44	7.27*
September	229.8	229.6	597.9	606.1	2511.2	2526.5	8.07	7.93	7.52	7.41
October	231.3	231.0	603.6	609.4	2534.9	2544.2	8.09	8.14	7.60	7.56
November	232.8	232.4	608.8	612.4	2558.0	2562.0	8.27	8.20	7.68	7.49
December	234.2	233.8	614.9	614.9	2582.1	2579.9	8.45	8.12	7.76	7.35
January 1986	235.4	234.9	616.1	617.1	2597.2	2598.0	8.50	8.26	7.85	7.38
February	236.4	235.7	618.7	618.7	2608.3	2611.0	8.53	8.38	7.96	7.64
March	237.4	236.6	620.4	620.6	2619.5	2626.7	8.50	8.54	8.07	7.89
April	238.8	237.8	623.5	623.5	2638.4	2645.1	8.52	8.50	8.01	7.83
May	240.0	239.2	627.3	625.5	2655.3	2661.0	8.43	8.27	7.76	7.65
June	241.3	240.5	631.0	627.7	2672.0	2679.6	8.36	8.11	7.69	7.52
July	242.4	241.6	632.9	630.6	2686.4	2695.7	8.15	8.02	7.60	7.46
August	243.6	243.0	634.6	633.7	2701.2	2711.9	8.02	7.84	7.54	7.13
September	244.7	244.3	636.2	636.4	2716.1	2730.9	7.89	7.98	7.51	7.28

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	12.23	12.23	9.42	9.42	8.37	8.37	8.49	8.49	10.50	10.50
May	11.72	11.72	8.93	9.01	7.83	7.83	7.92	7.92	10.31	10.31
June	10.94	10.94	8.59	8.67	7.35	7.35	7.44	7.44	9.78	9.78
July	10.85	10.97	8.76	8.89*	7.71	7.56	7.86	7.14	9.50	9.50
August	11.06	11.04*	9.07	9.15	7.82	7.70*	7.96	7.81*	9.50	9.50*
September	11.28	11.05	9.31	9.21	7.89	7.85	8.13	7.99	9.50	9.50
October	11.25	11.17	9.25	9.29	8.02	8.02	8.17	8.17	9.50	9.50
November	11.47	11.26	9.52	9.35	8.15	8.16	8.31	8.26	9.99	9.73
December	11.69	11.07	9.76	9.06	8.38	8.15	8.54	8.30	10.00	10.00
January 1986	11.62	11.21	9.74	9.24	8.51	8.29	8.65	8.44	10.00	10.00
February	11.65	11.30	9.73	9.43	8.55	8.34	8.69	8.51	10.01	10.13
March	11.60	11.37	9.63	9.50	8.46	8.50	8.58	8.68	10.50	10.50
April	11.58	11.14	9.55	9.36	8.40	8.42	8.56	8.63	10.50	10.50
May	11.51	10.98	9.45	9.20	8.27	8.26	8.43	8.44	10.50	10.50
June	11.45	10.93	9.33	9.06	8.18	8.04	8.36	8.21	10.50	10.50
July	11.33	10.86	9.19	8.89	8.03	7.93	8.24	8.13	10.50	10.26
August	11.28	10.74	9.14	8.81	7.96	7.86	8.17	8.05	10.28	10.00
September	11.22	10.71	9.09	8.73	7.90	8.01	8.08	8.20	10.00	10.00

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

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MONTHLY PROJECTIONS
SEPTEMBER 1985

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DOLLAR INITIATIVE EXPECTED TO HAVE MINIMAL IMPACT

Over the weekend, the Group of Five decided to actively intervene in currency markets to drive the dollar down against the yen, mark, French franc, and British pound. Two other parts of the program are to coordinate increased economic stimulus in Europe and Japan while the United States is requested to further reduce government deficits. The "crisis" that financial ministers are addressing is the rising tide of protectionist legislation in the U. S. Congress.

Whether coordinated dollar activity will stem the tide of protectionist legislation remains to be seen. The Textile Quota Bill has been modified slightly, although that bill stands an excellent chance of passage in the Congress. Efforts to further reduce the U. S. deficit are not expected to be meaningful despite these decisions. To that extent, no fundamental changes will be generated in the United States.

However, some economic stimulus is anticipated in West Germany and Great Britain while modest initiatives are developing in Japan. These initiatives do not appear to be large enough to take the locomotive burden from the shoulders of the United States. However, they may be sufficient to ensure 3.5% GNP growth in Europe during 1986 and maintain 4% growth in Japan even as the U. S. slows to less than 3% economic expansion. This will have some meaningful impact upon the value of the dollar, causing it to fall to a 1980-1982 trade-weighted value of 122 by the end of 1986. Currently, the trade-weighted value is approximately 136.

The role of coordinated intervention probably already has done as much as can be achieved. Investors who held short positions in other currencies already have closed out those positions. Some international corporate treasurers who had used dollar denominated assets to hold their liquidity between transactions may now be lightening their dollar liquidity holdings. This should momentarily create a surplus of dollar-based liquid assets in the world economy. As a result, money demand should fall and short-term interest rates should decline in the next few weeks. However, rapid money growth in recent months probably will encourage the Federal Reserve to use this temporary shift in money demand to slow the growth of the money stock. After a probable dip in October, short-term rates are expected to again trend upward toward the end of this year. As most of the adjustment will be in liquid holdings rather than long-term capital flows, the impact of the dollar intervention upon long-term interest rates should be minor.

Aside from portfolio adjustments, the following economic response is expected: First, a declining dollar will momentarily increase the merchandise trade deficit. However, shifting trade flows as a result of reduced foreign competitiveness in American markets should begin to narrow monthly trade deficits during the second half of 1986. Net exports in real terms are expected to be unchanged in 1986, following a significant decline this year. Second, the dollar's decline will raise prices for industrial materials. However, the magnitude of the decline currently envisioned will have only a minimal impact upon the pricing of imports in the United States. Profit margins commanded by importers are sufficient to absorb currency adjustments without forcing any significant price changes. At the same time, improved competitiveness by exporters will be too minor to create any significant capacity pressures on American industries. While the impact will be toward higher inflation, the magnitude of the price increase from what would have occurred in the absence of the dollar initiative should be on the order of 0.2-0.3% in 1986. Third, the slight strengthening of the economy generated by the dollar initiative should raise coporate profitability leading to an upward valuation of equities. However, economic activity still is expected to be sluggish in 1986 while interest rates are not expected to trend downward until the latter half of that year. Therefore, equity values should be slightly lower in 1986 than in 1985.

The GNP "flash" was weaker than expected because the Commerce Department anticipated a bulge in the trade deficit during August and September and also anticipated no real growth in residential or fixed investment. The third quarter report also indicated that the GNP deflator would be higher than the fixed-weighted value, suggesting that composition shifts would add to the GNP measure of inflation. Several of these assumptions are open to question.

Our projections clearly show that residential construction in the third quarter will exceed second quarter averages even with a decline in expenditures projected for August. Apparently, the Commerce Department used a projection based upon housing starts without recognizing that expenditures have accelerated relative to starts. Also, the August durable goods report showed significant increases in shipments of nondefense capital goods. Unless September shipments fall significantly, the shipment figures suggest that fixed investment will be stronger than in the second quarter. Finally, the Commerce report appears to be ignoring the composition shifts in consumption as a result of a surge in automobile sales. In fact, automobile production has not been significantly altered in the third quarter as a result of the dramatic response to financing incentives. Thus, the GNP should not be influenced by the surge in automobile sales. However, price adjustments for inventory liquidations are not expected to be as complete as the composition shifts for automobile consumption. If so, the deflator probably will be slightly less than the fixed-weight value.

When all the above factors are considered, estimated gains for the third quarter are 3.2% in real GNP and 2.9% for the GNP deflator. This compares to the 2.8% real estimate in the "flash" and the 3.1% deflator estimate.

Quarterly Profile of GNP

	1985-2	1985-3	1985-4	1986-1	1986-2	1986-3
Real:	1.9	3.2	4.2	2.8	2.5	1.6
Price:	2.6	2.9	3.9	4.1	4.4	4.5
Nominal:	4.5	6.2	8.3	7.0	7.0	6.2

Monthly Statistical Highlights for September 1985

Payroll employment +235,000; index of hours worked +0.3%; household employment +274,000; civilian unemployment rate 7.1%; personal income +0.6%; savings rate 2.9%; personal consumption +0.5%; retail sales +1.6%; auto sales 12.8 million; housing starts -0.1%; housing permits -2.6%; construction expenditures +0.9%; business inventories -0.3%; orders for durable goods -3.8%; orders for nondefense capital goods +1.4%; industrial production +0.4%; CPI +0.2%; PPI +0.2%; consumption deflator +0.2%; leading indicators +0.4%; real GNP +4.4%; M1 +11.0%; M2 +10.0%.

Monthly Statistical Highlights for October 1985

Payroll employment +268,000; index of hours worked +0.3%; household employment +290,000; civilian unemployment rate 7.0%; personal income +0.5%; savings rate 3.5%; personal consumption -0.2%; retail sales -1.7%; auto sales 10.6 million; housing starts +1.1%; housing permits -1.4%; construction expenditures +0.6%; business inventories +0.5%; orders for durable goods +0.6%; orders for nondefense capital goods +0.2%; industrial production +0.3%; CPI +0.3%; PPI +0.2%; consumption deflator +0.5%; leading indicators -0.2%; real GNP +4.3%; M1 +3.6%; M2 +8.5%.

COMMENTARY

Employment Situation - Apparently, the 6.7% surge in hours worked in motor vehicles reflects stronger production gains for light trucks rather than automobiles. The industrial production report for August did not confirm any seasonally adjusted increases in auto assemblies. Moreover, the gain in light trucks appears to be more fundamental than seasonal distortions. Under these circumstances, payroll employment could continue to grow significantly in the next few months.

Distortions still are anticipated in the household surveys as participation by teenagers and young adults return to a more normal seasonally adjusted pattern following an unusually sharp decrease in participations after seasonal adjustment during the summer.

Personal Income & Outlays - The retroactive Social Security payment in July was larger than originally reported. As a result, transfer payments fell more significantly in August than anticipated. In addition, interest income continued to fall despite signs of modest increases in short-term interest rates. In September the transfer distortions should no longer be present. By that time, property income should begin to increase. Indeed, the continued decline in August remains a mystery. Farm income will continue to deteriorate but not at the rates of recent months. Thus, income should rise more rapidly in September.

Of course, auto incentives are blowing 1985 models off the dealers' lots. For the first 20 days of September, sales have averaged nearly 12 million units for domestic vehicles. Dealers now are down to a 45-day supply of inventories. Sales should slow significantly in the last 10 days of September and fall sharply in October. In the meantime, savings rates are unusually low. Some increase in savings is anticipated following this surge in automobile buying.

Modest price increases enabled nondurable purchases to grow modestly in August despite significant gains in department store sales. Purchases of services spurted following unusually low sales by utilities in July. Moderate growth in service expenditures is expected in September while purchases of nondurables are expected to strengthen. Indeed, the outlays for nondurables in August were far short of what would have been anticipated by increases in retail sales. Some of our sales surveys are showing weakness in department store sales in the latter part of September, suggesting that strong automobile sales are beginning to detract from sales of other consumables. If so, expenditures for personal consumption may be more modest in the next few months than contained in our downscaled projections.

Construction - Builders apparently have decided that tax reform is not a significant possibility for 1986 incomes. They are beginning to use the building permits for rental property that had accumulated in recent months. If this pattern continues, housing permits will gradually diminish but housing starts should remain strong until early 1986. Vacancy rates should eventually reduce multi-family housing activity, although interest rates should remain favorable for single-family activity.

Although nonresidential construction was weaker than anticipated in July, orders rebounded significantly. Therefore, stronger construction spending patterns are expected in the latter part of the summer. However, construction purchases by utilities are beginning to show a secular decline. With limited need for industrial expansion and an obvious glut of office space, nonresidential construction could significantly deviate from forecasted value over the next year. Part of this will be offset by stronger public construction than originally projected. Apparently, many state and local communities are in capital spending programs because of concern that possible tax changes may reduce the ability to finance such projects in the future. These strong capital spending patterns are expected to be maintained over the next year.

Business Activity - Strong auto sales are at the expense of inventory. Indeed, our estimates of a slight increase in business inventories during August may prove to be incorrect. Manufacturing inventories also may show significant decline in August and September as a result of automobile liquidations. A significant rebound in inventories then is anticipated during the fourth quarter.

Shipments of nondefense capital goods remained robust despite moderate declines in the order backlog. Orders are expected to rebound to the vicinity of shipments in the next few months. If they do not, capital spending will begin to decline by the end of this year.

Industrial production did not show the rebound in August that had been anticipated by the employment statistics. Apparently, either the employment estimates were overstated or the industrial production figures were understated. Our feeling is that the industrial production figures showed more weakness than actually persisted. In particular, production of consumer goods, which was reported as increasing 0.7%, probably was understated. As production of materials only increased 0.1% in August, significant declines in inventories probably occurred.

Prices - The surge in automobile sales should substantially flatten the consumption deflator in August and September. Unwinding those composition shifts will dramatically increase the consumption deflator during the fourth quarter. Normally, this composition shift in consumption should be offset by pricing adjustments for inventories. However, the Commerce Department methodology for deflating inventory does not provide a full offset. Thus, the GNP deflator should be held down in the third quarter as a result of these composition shifts and then should accelerate in the fourth quarter.

Aside from the GNP deflator problems, inflation remains well-contained. A spurt in housing services will be reflected in the consumer services deflator in the next few months. However, no inflationary pressures for food and energy should continue to hold down consumer nondurable prices. Prices will be rising significantly for consumer durables, as automobile producers have substituted financing discounts for pricing discounts. Some of those financing discounts will be reflected in prices of consumer services. However, prices of consumer durables will increase more rapidly than originally projected because of this pricing adjustment.

The current dollar initiative is expected to have only modest effects upon inflationary pressures. Indeed, the apparent glut of energy materials should begin to exert downward pressures upon industrial commodity prices late in the winter. This will more than offset any upward price pressures created by the weakening dollar unless the dollar falls more dramatically than currently anticipated.

It should be noted that our GNP estimate shows significant gains through the fourth quarter despite a dramatic decline in auto sales following September. Some analysts have failed to recognize that the GNP reflects production. Sales incentives will significantly alter the composition of expenditures during the third and fourth quarters. Consumer spending will be much higher in the summer months than originally projected while inventory investment will be much lower. The process then will be reversed during the fourth quarter. However, the sales incentives will encourage the auto industry to produce at capacity through the fourth quarter. This is more robust than originally projected, leading to slightly higher estimates of production than previously made. Of course, the inventory buildup in the fourth quarter then could lead to slower production gains early in 1986.

It should also be noted that declining industrial prices, especially for energy materials, has lead to a positive inventory valuation adjustment. Therefore, inventories are growing more rapidly than the dollar valued inventory figures indicate. If producers have inventory valuation illusion, they may continue to underproduce inventory until prices begin to firm early in 1986. This could prolong the current economic expansion by failing to create the excess inventory accumulation that normally precedes an economic downturn.

FINANCIAL MARKETS

The flow of funds should show dramatic changes during the third quarter. Households obviously are sharply reducing their net contributions to the credit markets as a result of their auto buying binge. However, a higher-than-normal proportion of this increased economic activity from the household sector will end in the profits of producers. As a result, the corporate sector is expected to continue to reduce their growth in borrowings. Inventory liquidations during the third quarter also will aid corporate moderation in borrowings. Government borrowings are moderating again after seasonal adjustment, following refund releases during the spring. In short, ample moderation in credit market pressures are occurring in the government and corporate sector to offset the dramatic plunge in household contributions.

During the fourth quarter, some of these positions will be reversed. Government borrowings will intensify, household savings almost certainly must rise, while corporate borrowings must significantly increase to finance rising inventories. The dollar initiative may also diminish the attractiveness of dollars to foreign investors. This would lead to some upward pressures upon credit markets once the momentary excess liquidity generated by the dollar intervention policy is absorbed. For this reason, short-term interest rates are only momentarily expected to decline. The Federal Reserve probably will take this moderation in credit market pressures as an opportunity to slow money growth. By the end of the fall quarter, however, private credit pressures should once again intensify. Thus, interest rates still are expected to trend upward into the early months of 1986.

Equity Markets - Economic growth is slightly more sluggish in the third quarter than originally projected. However, the fourth quarter rebound is expected to be in line with previous anticipations. Interest rates may remain moderate slightly longer into the fourth quarter but should be trending upward by year's end. This would suggest that equity values will rise only modestly and may not quite challenge the 1400 barrier on the Dow Jones. Nevertheless, record highs on the Dow Jones still are anticipated during the fall. Equity values then are expected to drift downward through much of 1986.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	97120	97120	115.6	115.6	106945	106945	7.3	7.3	164.8	164.8
May	97386	97421	116.2	116.2	106960	106960	7.3	7.3	165.0	164.9
June	97466	97473	116.5	116.3	106370	106370	7.3	7.3	165.4	165.7
July	97639	97722	116.8	115.9	106865	106862	7.3	7.3	165.9	165.5
August	97952	98010	117.0	116.7	107180	107172	7.3	7.0	166.4	165.5
September	98265	98245*	117.3	117.0*	107494	107446*	7.3	7.1*	166.8	166.3*
October	98429	98513	117.6	117.3	107765	107736	7.2	7.0	167.4	166.8
November	98652	98723	117.9	117.5	108079	107987	7.2	7.0	168.0	167.2
December	98869	98908	118.1	117.7	108246	108222	7.2	7.0	168.7	167.6
January 1986	99027	99201	118.3	118.0	108453	108598	7.2	6.8	169.3	168.1
February	99196	99378	118.5	118.2	108689	108794	7.1	6.8	170.0	168.5
March	99311	99562	118.7	118.4	109237	109029	7.1	6.7	170.6	169.0
April	99507	99739	118.8	118.6	109534	109256	7.0	6.7	171.1	169.6
May	99648	99832	119.0	118.7	109475	109375	7.0	6.8	171.6	170.1
June	99798	100017	119.2	118.9	109107	109609	7.0	6.8	172.2	170.5
July	99943	100101	119.3	119.0	109771	109718	7.0	6.9	172.8	171.1
August	100126	100194	119.5	119.1	109969	109942	7.0	6.9	173.4	171.7
September	100336	100286	119.6	119.2	110062	110102	7.0	6.9	174.0	172.4

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	3.186	3.185	1.903	1.903	145.7	143.4	2.721	2.719	2.575	2.576
May	3.164	3.164	1.908	1.908	171.8	174.3	2.765	2.764	2.594	2.590
June	3.176	3.176	1.917	1.921	90.8	100.4	2.696	2.696	2.606	2.596
July	3.198	3.190	1.930	1.923	98.8	102.1	2.722	2.709	2.623	2.607
August	3.220	3.199	1.942	1.935	109.6	74.7	2.744	2.714	2.634	2.639
September	3.243	3.219*	1.953	1.949*	118.9	78.5*	2.765	2.731*	2.646	2.653*
October	3.261	3.236	1.964	1.960	115.4	97.1	2.778	2.745	2.663	2.647
November	3.280	3.252	1.975	1.969	115.5	102.0	2.792	2.758	2.677	2.656
December	3.300	3.268	1.986	1.978	107.3	102.3	2.803	2.771	2.696	2.668
January 1986	3.311	3.283	1.996	1.990	111.1	102.4	2.820	2.783	2.709	2.681
February	3.335	3.300	2.006	1.999	120.1	101.3	2.842	2.799	2.722	2.698
March	3.363	3.318	2.015	2.009	130.0	107.4	2.864	2.815	2.734	2.708
April	3.375	3.338	2.025	2.021	123.3	113.1	2.874	2.832	2.751	2.719
May	3.385	3.357	2.034	2.030	115.3	113.0	2.883	2.848	2.768	2.735
June	3.396	3.373	2.043	2.039	107.6	117.5	2.892	2.862	2.784	2.744
July	3.413	3.388	2.054	2.049	106.3	115.7	2.908	2.874	2.802	2.758
August	3.426	3.404	2.065	2.059	100.7	111.2	2.921	2.887	2.820	2.776
September	3.440	3.422	2.076	2.070	98.8	110.2	2.934	2.903	2.835	2.792

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	2482.7	2483.0	341.0	341.0	894.1	894.1	1247.6	1247.9	1100.3	1100.7
May	2499.7	2495.6	342.7	342.7	891.2	891.2	1265.8	1261.8	1104.6	1103.9
June	2510.1	2500.4	336.2	333.9	892.1	890.4	1281.8	1276.1	1105.1	1101.6
July	2526.4	2510.4	339.6	336.7	898.4	892.2	1288.4	1281.6	1109.0	1104.9
August	2536.2	2541.5	340.9	358.6	903.8	893.9	1291.5	1288.9	1110.9	1118.3*
September	2546.6	2553.9*	343.7	359.3*	908.3	899.4*	1294.6	1295.2*	1113.5	1121.2
October	2561.5	2547.6	344.1	342.6	910.8	902.6	1306.6	1302.4	1116.1	1113.2
November	2573.6	2555.0	342.7	340.6	911.6	904.7	1319.3	1309.7	1117.5	1111.7
December	2591.1	2566.1	344.6	338.5	914.5	907.4	1332.0	1320.2	1121.2	1113.3
January 1986	2603.1	2577.6	345.5	338.6	916.9	910.3	1340.7	1328.7	1122.0	1114.1
February	2615.0	2593.7	346.3	342.7	919.7	914.1	1349.0	1336.9	1122.8	1118.1
March	2626.0	2602.7	346.2	341.2	922.5	916.9	1357.3	1344.6	1123.2	1118.8
April	2641.2	2613.0	345.5	339.7	927.6	919.6	1368.1	1353.7	1125.8	1118.9
May	2656.7	2628.0	345.6	341.3	932.5	922.9	1378.6	1363.8	1128.1	1121.2
June	2671.9	2635.9	346.0	337.4	937.4	926.0	1388.5	1372.5	1130.2	1120.5
July	2687.9	2649.2	346.8	336.4	943.7	930.1	1397.4	1382.7	1132.7	1121.7
August	2705.3	2665.8	348.1	338.0	949.0	934.7	1408.2	1393.1	1135.7	1124.7
September	2719.0	2681.4	348.5	339.1	951.6	939.7	1418.9	1402.6	1137.2	1127.2

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	115.35	115.35	16.71	16.71	11.1	11.1	72.42	72.42	26.23	26.23
May	114.81	114.88	16.51	16.66	11.2	11.3	72.33	72.10	25.98	26.13
June	113.94	113.73	16.00	16.24	10.5	10.3	72.36	71.67	25.58	25.82
July	115.14	113.91	16.40	16.42	10.5	10.3	72.85	71.69	25.89	25.80
August	115.74	116.10	16.46	16.29	10.6	12.4	73.29	72.20	25.99	27.62
September	116.45	117.61*	16.59	16.37*	10.7	12.8*	73.65	72.53*	26.21	28.41*
October	116.71	115.61	16.87	16.35	10.4	10.6	73.86	72.79	25.98	26.47
November	116.60	115.53	16.80	16.48	10.5	10.4	73.92	72.96	25.88	26.09
December	117.07	115.50	16.71	16.61	10.7	10.2	74.16	73.18	26.20	25.71
January 1986	117.38	115.73	16.85	16.55	10.6	10.2	74.35	73.41	26.18	25.77
February	117.71	116.54	17.10	16.79	10.4	10.3	74.58	73.72	26.03	26.03
March	117.92	116.59	17.13	16.81	10.3	10.2	74.81	73.94	25.98	25.84
April	118.25	116.62	17.27	16.84	10.2	10.1	75.22	74.16	25.76	25.62
May	118.66	117.09	17.46	17.01	10.0	10.1	75.62	74.43	25.58	25.65
June	119.10	116.85	17.40	17.00	10.1	9.9	76.01	74.68	25.69	25.17
July	119.71	117.06	17.39	17.09	10.1	9.8	76.52	75.01	25.80	24.96
August	120.30	117.63	17.48	17.18	10.1	9.8	76.95	75.38	25.87	25.07
September	120.46	118.17	17.64	17.26	10.0	9.8	77.17	75.78	25.76	25.13

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CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	1.933	1.933	1.155	1.155	1.704	1.704	338.3	338.3	202.9	202.9
May	1.675	1.681	1.041	1.039	1.778	1.778	343.5	347.4	205.7	208.0
June	1.705	1.701	1.027	1.031	1.713	1.712	343.5	345.4	205.3	205.5
July	1.800	1.647	1.072	1.062	1.675	1.694	345.5	349.5	207.1	208.6
August	1.808	1.749	1.095	1.073	1.682	1.754	348.7	351.5*	209.4	209.6*
September	1.793	1.747*	1.118	1.089*	1.661	1.708*	352.7	354.6	211.5	210.9
October	1.806	1.767	1.126	1.116	1.668	1.684	353.5	356.7	211.4	211.7
November	1.792	1.757	1.132	1.115	1.643	1.653	355.8	360.2	212.3	213.1
December	1.777	1.721	1.117	1.093	1.629	1.598	358.2	362.1	213.1	213.6
January 1986	1.752	1.744	1.102	1.126	1.582	1.584	357.2	362.0	212.1	212.9
February	1.725	1.693	1.082	1.104	1.565	1.556	357.1	362.7	211.7	213.0
March	1.698	1.644	1.061	1.062	1.569	1.542	357.2	363.2	211.4	212.8
April	1.643	1.604	1.036	1.051	1.542	1.503	355.0	363.6	209.7	212.4
May	1.591	1.557	1.015	1.028	1.496	1.449	354.0	361.9	208.7	210.9
June	1.539	1.544	0.994	1.021	1.483	1.468	352.9	360.0	207.7	209.3
July	1.535	1.567	0.982	1.024	1.442	1.471	351.8	358.4	206.6	207.9
August	1.553	1.604	0.985	1.068	1.435	1.493	350.0	359.5	205.2	208.2
September	1.565	1.632	1.012	1.094	1.443	1.508	348.9	361.4	204.2	208.8

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	134.5	134.5	59.3	59.3	144.5	144.5
May	135.7	132.6	61.0	63.7	146.8	151.1
June	135.0	129.9	60.9	64.8	147.6	150.7
July	138.1	130.2	59.9	66.1	147.5	153.2
August	141.4	133.4*	59.0	66.3*	148.3	151.8*
September	144.7	134.6	59.0	66.6	149.0	153.4
October	143.7	136.1	59.7	66.3	150.1	154.3
November	144.3	137.2	60.3	65.6	151.2	157.4
December	145.0	139.0	60.9	65.9	152.3	157.2
January 1986	145.8	140.3	60.5	64.8	150.9	156.9
February	146.6	141.0	60.7	65.2	149.8	156.5
March	147.3	141.9	61.0	65.5	148.9	155.8
April	148.0	142.4	60.5	66.4	146.5	154.8
May	148.7	143.2	61.0	66.9	144.3	151.8
June	149.3	144.1	61.4	67.1	142.2	148.8
July	150.0	144.8	61.5	66.8	140.3	146.8
August	150.3	145.6	61.7	67.2	138.0	146.7
September	150.2	146.3	61.7	67.4	137.0	147.7

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	286.0	286.0	99.73	99.84	25.41	25.46	27.26	27.10
May	285.0	284.9	103.03	102.97	25.64	25.59	26.98	26.81
June	285.0	285.7	104.85	106.78	27.40	27.98	27.00	27.48
July	285.4	285.2	103.05	104.37	26.93	26.69	27.16	27.04
August	286.0	285.4	104.96	107.92	27.45	27.21	27.33	27.50
September	286.7	285.3*	103.82	103.86*	27.62	27.58*	27.50	27.56*
October	287.8	286.8	103.56	104.52	27.55	27.63	27.65	27.68
November	288.7	288.1	104.73	105.63	27.82	27.84	27.85	27.82
December	289.6	289.2	104.25	104.73	27.83	27.75	28.04	27.96
January 1986	290.3	290.5	104.17	104.27	27.54	27.56	28.10	27.84
February	291.5	291.6	103.28	106.18	27.59	27.89	28.00	27.92
March	292.8	292.8	105.43	106.47	28.12	28.02	28.09	28.07
April	294.0	293.7	104.81	105.93	28.10	28.13	28.18	28.15
May	295.3	294.9	105.36	105.87	28.42	28.06	28.27	28.23
June	296.8	296.0	105.15	105.96	28.40	27.55	28.35	28.27
July	298.1	297.3	105.72	107.16	28.63	27.89	28.44	28.19
August	299.5	298.7	105.07	107.43	28.55	27.92	28.52	28.15
September	300.5	300.0	104.96	107.08	28.46	27.78	28.60	28.09

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	580.2	580.2	6.38	6.35	124.3	124.1	80.9	80.8
May	577.9	577.8	6.59	6.58	124.4	124.1	80.8	80.6
June	577.9	579.8	7.07	7.22	124.6	124.4	80.7	80.6
July	578.8	579.8	7.00	6.83	124.8	124.4	80.7	80.4
August	580.3	580.9*	7.03	6.99	125.2	124.8	80.7	80.5
September	581.5	579.6	7.07	7.08*	125.6	125.3	80.8	80.7
October	583.2	582.7	7.15	7.23	126.2	125.8	81.0	80.9
November	585.1	585.3	7.28	7.20	126.9	126.2	81.3	81.0
December	586.9	587.5	7.42	7.31	127.4	126.5	81.4	81.0
January 1986	589.2	589.4	7.53	7.39	127.4	126.8	81.1	81.0
February	592.0	591.6	7.63	7.50	127.5	127.0	81.0	80.9
March	594.2	594.3	7.75	7.59	127.5	127.2	80.7	80.8
April	596.7	596.1	7.84	7.71	127.6	127.5	80.6	80.8
May	599.3	598.6	7.93	7.86	127.7	127.5	80.5	80.5
June	601.3	600.7	8.01	7.93	127.8	127.8	80.3	80.5
July	603.4	603.3	8.15	8.02	127.8	128.0	80.1	80.4
August	605.9	606.4	8.22	8.15	127.9	128.1	80.0	80.2
September	607.8	609.2	8.30	8.23	128.0	128.3	79.9	80.1

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	320.4	320.4	293.6	293.6	323.8	323.8	230.23	230.17
May	321.1	321.1	294.2	294.2	325.3	325.3	230.60	230.43
June	321.8	321.8	294.2	293.5	325.2	324.7	231.12	231.05
July	322.6	322.4	294.5	294.4	325.2	324.3	231.75	231.66
August	323.3	323.0	294.3	293.5	324.9	323.6	232.41	232.20
September	324.0	323.6*	294.1	294.1*	324.0	322.6*	233.22	232.78
October	325.0	324.5	294.8	294.7	325.7	323.9	233.84	233.66
November	326.2	325.6	295.3	295.2	326.2	324.3	234.35	234.50
December	327.4	326.6	295.4	295.6	326.6	324.6	234.98	235.12
January 1986	328.6	327.9	296.4	296.1	327.3	325.1	235.90	236.07
February	329.8	328.7	297.2	296.4	328.0	325.5	236.86	236.74
March	331.0	329.6	298.0	297.0	328.7	326.2	237.81	237.46
April	332.5	330.8	298.6	296.8	329.3	325.7	238.54	238.37
May	344.0	332.1	299.1	297.6	329.6	326.3	239.39	239.29
June	335.4	333.2	299.7	298.2	329.9	326.5	240.23	240.18
July	336.3	334.6	300.5	298.5	330.5	327.3	241.11	241.15
August	337.2	335.7	301.6	299.0	332.3	328.0	242.05	241.97
September	338.2	337.1	301.5	299.4	331.1	328.5	242.98	242.80

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	225.6	225.6	179.2	179.2	221.1	221.1	246.6	246.6	166.7	166.7
May	226.3	226.1	178.5	178.3	221.3	221.1	248.3	248.0	167.0	167.0
June	227.3	227.0	178.1	177.8	220.9	221.3	250.0	249.5	167.3	168.1
July	227.8	227.2	178.6	177.7	221.4	221.2	250.8	250.2	166.8	167.5
August	228.3	227.3*	179.4	178.3*	221.9	221.1*	251.6	251.3*	166.5	167.7*
September	228.7	227.8	180.1	178.7	222.3	221.2	252.4	252.2	166.8	168.1
October	229.5	228.9	180.3	179.3	222.4	221.5	253.6	253.1	167.2	168.5
November	230.3	229.8	180.2	179.6	222.5	221.8	254.8	254.1	167.6	169.0
December	231.1	230.5	180.4	180.1	222.8	222.3	256.0	255.3	168.1	169.5
January 1986	232.0	231.4	180.8	180.6	223.5	222.9	257.1	256.4	168.4	170.0
February	232.9	232.0	181.1	181.1	224.7	223.1	258.2	257.5	168.7	170.3
March	233.8	232.6	181.4	181.5	225.9	223.3	259.3	258.5	169.0	170.7
April	234.6	233.5	181.7	181.9	226.2	223.8	260.6	259.7	169.3	171.2
May	235.5	234.4	181.9	182.3	226.6	224.5	261.8	260.8	169.6	171.6
June	236.4	235.2	182.2	182.5	227.0	225.1	263.0	261.8	169.9	172.0
July	237.3	236.2	182.7	182.6	227.8	225.9	264.2	263.0	170.3	172.4
August	238.2	237.0	183.0	183.0	228.7	226.6	265.4	264.1	170.6	172.7
September	239.1	238.0	183.3	183.4	229.6	227.2	266.6	265.3	170.9	173.1

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	-11.85	-11.85	166.6	166.9	3842	3842	1669	1669	-1.0	-0.6
May	-12.67	-12.67	167.8	167.4	3853	3852	1671	1672	0.3	2.2
June	-10.99	-13.42	168.5	168.0	3871	3865	1675	1673	4.9	5.3
July	-11.46	-10.51	169.2	168.7	3890	3885	1679	1677	2.2	6.7
August	-12.96	-12.10*	169.6	169.9*	3912	3912	1683	1685	0.7	6.8
September	-12.95	-12.76	169.3	170.5	3937	3937	1688	1691	1.3	5.4
October	-13.08	-13.27	169.0	170.2	3964	3966	1695	1697	-0.7	3.7
November	-13.17	-13.43	168.4	170.5	3986	3989	1701	1701	-3.4	3.1
December	-12.27	-13.56	168.6	171.1	4008	4015	1706	1708	-6.0	2.4
January 1986	-13.08	-13.27	168.9	171.6	4027	4034	1707	1709	-6.2	1.6
February	-12.96	-13.08	169.3	171.0	4052	4059	1711	1715	-6.9	-0.7
March	-12.88	-12.76	168.8	170.4	4076	4081	1714	1719	-5.8	0.2
April	-13.02	-12.84	168.9	170.7	4089	4104	1714	1722	-3.1	3.1
May	-12.99	-12.75	168.2	171.1	4107	4130	1716	1726	-0.8	2.4
June	-12.87	-12.26	167.3	170.2	4124	4149	1717	1727	-1.1	1.1
July	-12.66	-11.89	167.5	169.8	4145	4171	1719	1730	-4.3	-0.7
August	-12.29	-12.28	167.8	170.3	4167	4192	1722	1732	-5.6	-1.3
September	-12.08	-12.16	168.4	170.6	4190	4208	1724	1733	-6.2	-1.9

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	221.9	222.6	574.9	574.9	2427.4	2427.3	8.27	8.27	8.23	8.23
May	223.7	224.0	581.6	581.6	2444.6	2444.6	7.97	7.97	7.65	7.65
June	227.4	227.6	591.1	591.2	2472.8	2472.7	7.53	7.53	7.09	7.09
July	228.3	227.8	595.6	595.8	2495.6	2490.2	7.81	7.88	7.36	7.16
August	229.0	228.8*	596.7	606.0	2503.5	2513.4	7.94	7.90	7.44	7.32
September	229.8	231.4	597.9	611.3*	2511.2	2533.4*	8.07	7.83*	7.52	7.29*
October	231.3	233.2	603.6	613.1	2534.9	2550.7	8.09	7.79	7.60	7.18
November	232.8	234.8	608.8	616.4	2558.0	2565.4	8.27	7.93	7.68	7.29
December	234.2	235.6	614.9	617.1	2582.1	2577.6	8.45	8.17	7.76	7.46
January 1986	235.4	236.9	616.1	618.3	2597.2	2593.4	8.50	8.37	7.85	7.65
February	236.4	237.8	618.7	619.9	2608.3	2610.5	8.53	8.43	7.96	7.73
March	237.4	238.5	620.4	622.5	2619.5	2622.7	8.50	8.40	8.07	7.65
April	238.8	240.1	623.5	625.5	2638.4	2641.3	8.52	8.29	8.01	7.46
May	240.0	240.9	627.3	626.6	2655.3	2657.4	8.43	8.51	7.76	7.71
June	241.3	241.6	631.0	628.2	2672.0	2673.8	8.36	8.56	7.69	7.75
July	242.4	242.5	632.9	631.2	2686.4	2689.1	8.15	8.42	7.60	7.72
August	243.6	243.7	634.6	634.6	2701.2	2704.3	8.02	8.35	7.54	7.64
September	244.7	244.8	636.2	637.7	2716.1	2719.6	7.89	8.27	7.51	7.59

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1985	12.23	12.23	9.42	9.42	8.37	8.37	8.49	8.49	10.50	10.50
May	11.72	11.72	8.93	9.01	7.83	7.83	7.92	7.92	10.31	10.31
June	10.94	10.94	8.59	8.69	7.35	7.35	7.44	7.44	9.78	9.78
July	10.85	10.97	8.76	8.89*	7.71	7.56	7.86	7.74	9.50	9.50
August	11.06	11.05	9.07	9.16	7.82	7.72	7.96	7.81	9.50	9.50
September	11.28	11.16*	9.31	9.32	7.89	7.85*	8.13	7.79*	9.50	9.50*
October	11.25	11.15	9.25	9.31	8.02	7.73	8.17	7.88	9.50	9.50
November	11.47	11.28	9.52	9.45	8.15	8.01	8.31	8.16	9.99	9.50
December	11.69	11.39	9.76	9.57	8.38	8.24	8.54	8.35	10.00	9.86
January 1986	11.62	11.55	9.74	9.73	8.51	8.43	8.65	8.57	10.00	10.00
February	11.65	11.46	9.73	9.58	8.55	8.40	8.69	8.55	10.01	10.00
March	11.60	11.41	9.63	9.51	8.46	8.36	8.58	8.51	10.50	10.00
April	11.58	11.36	9.55	9.42	8.40	8.25	8.56	8.46	10.50	10.00
May	11.51	11.53	9.45	9.57	8.27	8.53	8.43	8.69	10.50	10.13
June	11.45	11.57	9.33	9.63	8.18	8.59	8.36	8.73	10.50	10.50
July	11.33	11.43	9.19	9.46	8.03	8.41	8.24	8.60	10.50	10.50
August	11.28	11.37	9.14	9.38	7.96	8.33	8.17	8.47	10.28	10.50
September	11.22	11.28	9.09	9.27	7.90	6.26	8.08	8.35	10.00	10.37

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